A monograph
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Model Analysis of the Effects of Government Spending

The words of B. Felderer from the introduction to the Slovak edition of the book Macro-economics and the New Macro--economics, that he explains the findings of macro-economic theory in a form appropriate for analysis and understanding of economic – political decisions in a market economy without departing from the required scientific exactness, fully apply to the work reviewed here.

The theory of pension and employment are important for the explanation of all economic – political decisions by the government. The author concentrates on the crowding out effect and crowding in effect, which can be seen as central to discussion of the effect of government demand and the wider questions of intervention in the mechanism, macro- economic balance and so on.

The author was confronted with the difficult task of selecting problems from the rich theoretical and model literature of the world, while maintaining an orientation to mainstream macro-economic knowledge, and to comprehensible, clear and compatible presentation. It is necessary to say immediately that he has achieved his aim perfectly, and presented a balanced, theoretically based and practically prepared work.

The fact that the author formulated his aims very clearly is an advantage when assessing the work. He undertook to collect the views on the crowding out/in effects in models of closed economies from the point of view of various theoretical schools, and to extend the analysis of the effect to models of open economies. He attempts to generalize the differences in growth of influence of government demand in the transforming economies.

From the point of view of the academic-educational orientation of the National Economy Faculty of the Economics University in Bratislava, this publication is a break through. Firstly – it is oriented towards scientific consideration and educational activity concerning relevant questions of the transformation processes. Secondly – it researches them against the background of the central theoretical conceptions of present-day world knowledge. Thirdly – it orients the educational process towards more extensive application of quantitative analyses in precisely defined conditions. Fourthly - it gives our economic policy an analytico-methodological basis freed from vulgar political bias, and researching the reactions of aggregate statistics (in relation to government spending) on the basis of exact procedures, which allow expert discussion on a more exact measurable basis. It is especially necessary to emphasize the clarity of the formulation of macro-economic problems.

The analysed models, whether the already classic, classic complete or simple classic model of a partially open economy with a fixed exchange rate, the complete classic model of a partially open economy, then with a flexible exchange rate, the complete classic model of a partially open economy with floating exchange rate, the Keynesian model of a closed market economy, the scenario of an investment trap, the scenario of a liquidity trap, the scenario of firm nominal wages, the crowding out effect in the complex Keynesian model of a closed market economy, the simple Keynesian model of an open economy with a fixed exchange rate, macro- economic models of an open economy and the crowding out / crowding in effects, the Mundell-Fleming model and the crowding out effect form a very wide and comprehensive exploration of the complex but still measurable influence of the effect of government spending in the most relevant theoretical conceptions and the associated model solutions. The author inclines to the view that the crowding out of private demand by government spending only occurs in the case of full use of resources.

Chapter 6 – The model analysis of the crowding in / crowding out effects in a transition economy (for example Slovakia) – is a sort of culmination and vigorous contribution. The author presents his own model enrichment of the problem of functioning of this mechanism in transitional economies, especially from the point of view of the privatization process (introduction of a privatization agency, formulation of the principles of the privatization or transformation trap). From the model solution of the Slovak economy, he derives very interesting new views on the existence of the crowding out / crowding in effect in the period 1993 – 2000. The two models reflect two stages of development of the Slovak economy – the stage of a fixed nominal exchange rate and the stage of a floating exchange rate. As far as I know, the results of the privatization process (additional cost inflation and raised total transformation inflation) and the role of the central bank in these processes, is studied here for the first time in Slovak literature in this form. (When formulating hypotheses or pre-conditions, perhaps more attention should be devoted to the partially high real wages in the Slovak economy.)

The work concludes with very interesting and in many ways entirely new conclusions, deriving from modelling of the situation in Slovakia. The influence of the mixture of behaviour of the central bank and government on the crowding in/crowding out effect is especially important. The author postulates a conclusion about the existence of the crowding out effect, and the freezing of private investment as a result of privatization. The work as a whole is compact, clear and correctly graded. In conclusion, it is necessary to emphasize that the problem of research into government spending with such a comprehensive breadth, quantitative depth and model integrity was not produced in Slovak economic literature before, and from this point of view it has a pioneering character.

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