

Session 5

**Government and
the Economy**

**Readings:
Chapters 20-21**

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Tony Biddle*

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Key Topics Covered

- The historic role of government in capitalism
- The economic functions of government today
- Class interests, class conflict, and government
- Government's "toolkit": policy levers and instruments
- Types and effects of government spending
- Types and effects of government taxing
- Debts and deficits: myths and reality

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Key Terms Introduced

• democracy	• income tax
• public goods	• sales tax
• natural monopoly	• progressive tax
• regulation	• flat-rate tax
• redistribution	• payroll tax
• monetary policy	• wealth tax
• fiscal policy	• user fees
• social policy	• environmental tax
• industrial policy	• deficit
• public ownership	• surplus
• program spending	• balanced budget
• transfer payments	• debt
• government production	• debt burden
• public consumption	• public-private partnership
• public investment	• income security
	• market income

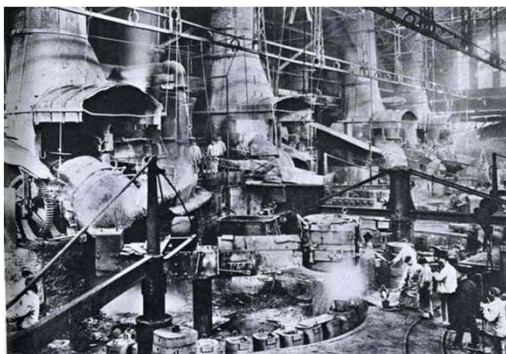
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The “Myth” of “Big Government”

- Stereotype: Capitalism was “pure”
– Then government, taxes, unions came along and “polluted” it.

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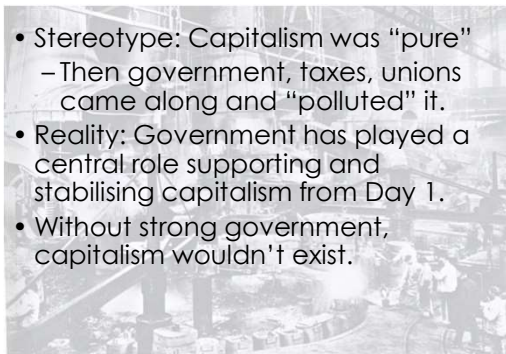
The “Myth” of “Big Government”



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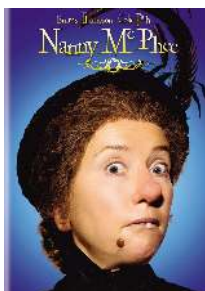
The “Myth” of “Big Government”

- Stereotype: Capitalism was “pure”
– Then government, taxes, unions came along and “polluted” it.
- Reality: Government has played a central role supporting and stabilising capitalism from Day 1.
- Without strong government, capitalism wouldn't exist.



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Whose Nanny State?



“The idea that conservatives trust the market while progressives want the government is a myth. Conservatives simply are not honest about the ways in which they want the government to intervene to distribute income upward.”
- Dean Baker, *The Myth of the Nanny State*

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In the Beginning...

- Strong central government was a key factor in explaining the birth of capitalism
 - Where
 - When
- Protection for property
- Unified market, standards, currency
- Colonialism (resources, markets, slaves)
- Labor relations
 - Create new working class (enclosures)
 - Police workers and unions

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Open for Business: 10 Ways Government Serves (p. 269)

- Think of a way that modern-day government actively promotes the interests of private business (rather than ‘getting in the way’).
- List it in the Q&A.

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**Open for Business:
10 Ways Government Serves**

(p. 269)

1. Protect private property
2. Pay for basic infrastructure
3. Pay for essential training & schooling
4. Manage & police labour relations
5. Business-friendly macro environment
6. Enforce stable rules & standards (weights, measures, quality, competition)
7. Support investment with incentives/taxes
8. Open new markets (privatization, trade)
9. Tax loopholes/subsidies for high income
10. Rescue businesses in times of crisis

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Tracking Government

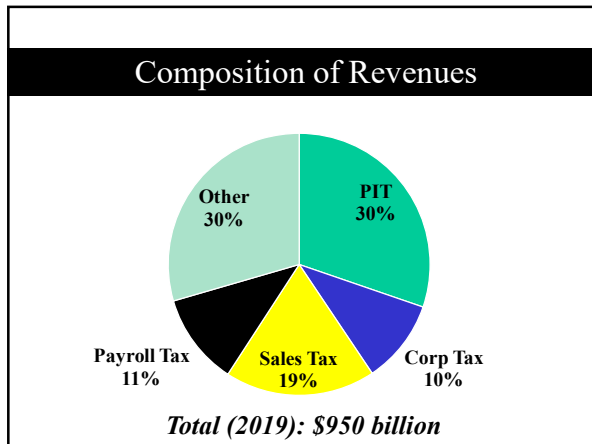
- Impacts on income
 - Taxes (from individuals, businesses)
 - Transfer payments (back to individuals, businesses)
 - Wages (to public sector workers)
- Impacts on production
 - Direct provision of goods & services (15%)
 - Procurement (purchases from private businesses)
 - Regulation (affects conditions of production in private sector)

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**The Economic Parameters
of Government (2019)**

- Direct output: \$350b (17.5% of GDP)
- Revenues: \$950b (41% of GDP)
 - \$350b fed; \$500b prov; \$200b local; \$70b CPP
- Employment: 3.8m (20% emp.)
- Compensation: \$285b (24% comp.)
- Fixed Investment: \$90b (26% non-res.)
- Gross Debt: \$1.9t (28% of all debt)
 - Net Debt: \$1.35t (58% GDP)

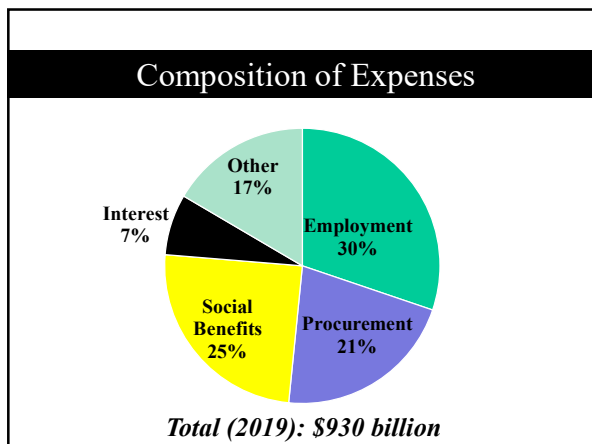
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- ### Taxes: Fair & Otherwise
- Income taxes
 - Progressive: rate rises with income
 - Sales / Value-added taxes
 - Supposedly “encourages saving”
 - Corporate taxes
 - Income taxes
 - Capital taxes
 - Payroll taxes
 - Wealth taxes
 - Environmental taxes

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**Understanding
Government's Impacts**

- What workers get:
 - Extra source of consumption
 - Extra source of work & income
 - Political/democratic potential to use government for change
- What capitalists get:
 - A new source of spending power
 - Power to police & regulate the operation of the whole system
 - Backstop when things turn ugly

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**Neoliberalism:
Is Government Weak ... or Strong?**

- Downsizing and refocusing government has been a key feature of neoliberalism
- Yet government remains strong
 - Example: monetary policy to regulate the overall labour market
- The issue is not is government big or small, or is it strong or weak
- The issue is: who does government serve?

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**Deficits and Debt:
The Bogeyman of Fiscal Policy**

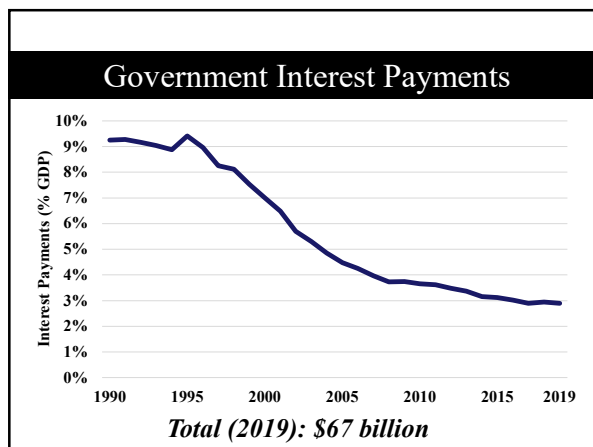
- Deficits caused by insufficient revenue
 - Structural: not taxing enough to pay for services
 - Cyclical: automatic impact of recession on revenues, spending
- Debt is the culmination of consecutive deficits
- Debt is OK if:
 - Debt incurred to pay for public investment
 - Debt is stable as share of GDP
 - Interest rates are not too high

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The Politics of Debt & Taxes

- Phobia about debt aimed at justifying downsizing
- True constraints on public finance:
 - Debt can't grow forever as a share of GDP
 - Interest costs must be manageable as share of GDP
- But that's a lot of room:
 - Moderate annual deficits OK
 - Bigger deficits in weak times OK
 - Taxes on individuals OK
 - Some additional taxes on business OK

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Don't Panic

- Canada's fiscal situation is not dire.
- Key constraints on fiscal policy (debt/GDP and debt service/GDP) are healthy.
- Austerity will undermine economic recovery and cause needless human suffering.
- Restraining interest rates and accelerating nominal GDP growth are the critical priorities.

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Government and COVID-19 Reconstruction

- Can private sector lead recovery to "normal"?
- Public sector must be prepared to lead long-term reconstruction.
 - Repair / strengthen health system.
 - Sustained public infrastructure investment.
 - Climate transitions (energy / transport).
 - Non-market housing.
 - Permanent expansion of public services.
 - Industry policy / manufacturing.

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COVID-19 "Reconstruction Plan"



A Modern-Day C.D. Howe?

Minister of Reconstruction, Appointed in 1944

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Thank You!
Let's take 5 minutes...
