

# Session 5

***Government and  
the Economy***

**Readings:  
Chapters 20-21**

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Tony Biddle***

# 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

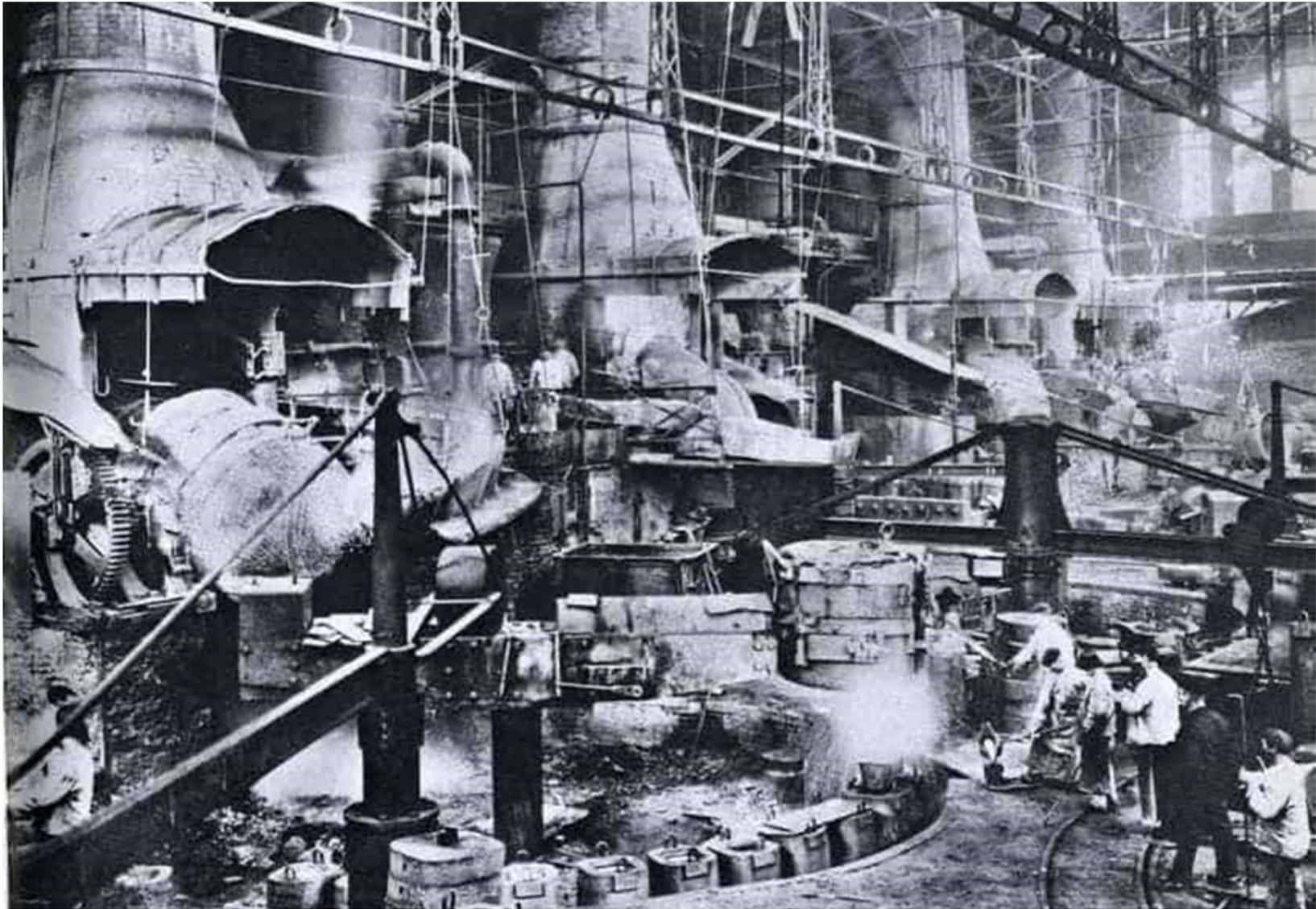
# Key Terms Introduced

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

# The “Myth” of “Big Government”

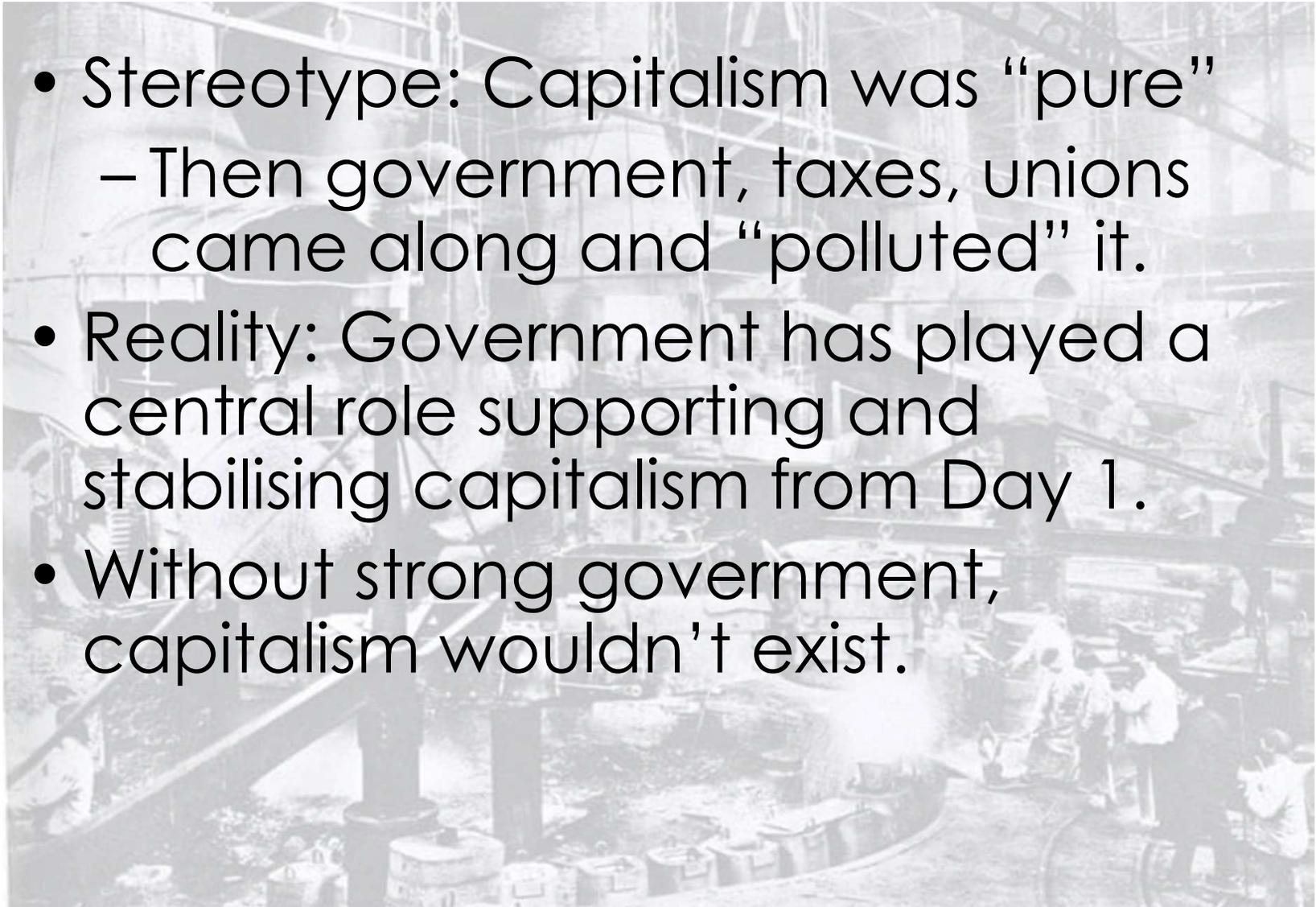
- Stereotype: Capitalism was “pure”
  - Then government, taxes, unions came along and “polluted” it.

# The “Myth” of “Big Government”

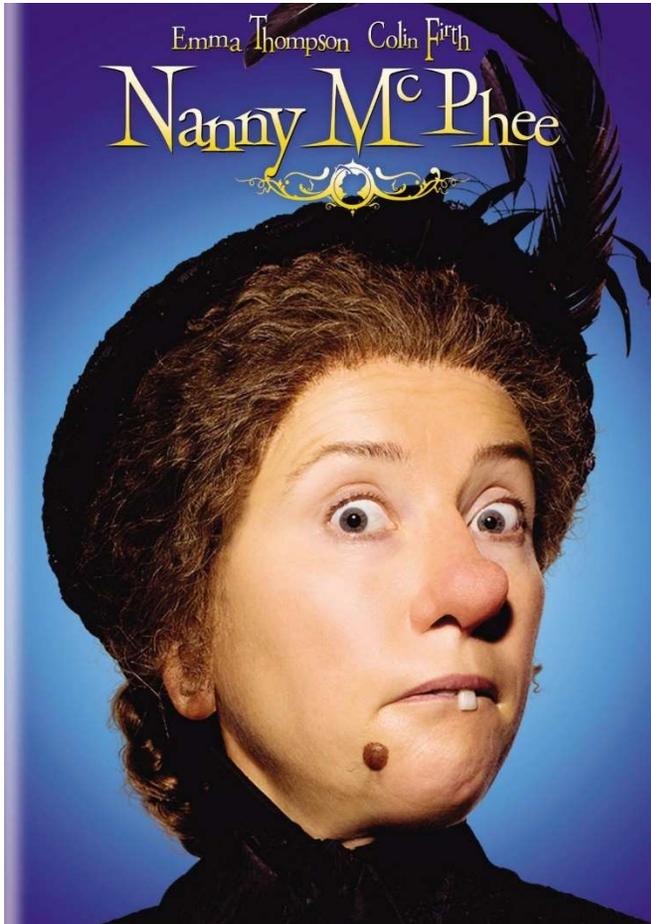


# The “Myth” of “Big Government”

- 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.



# 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*

# 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

# 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.

# 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

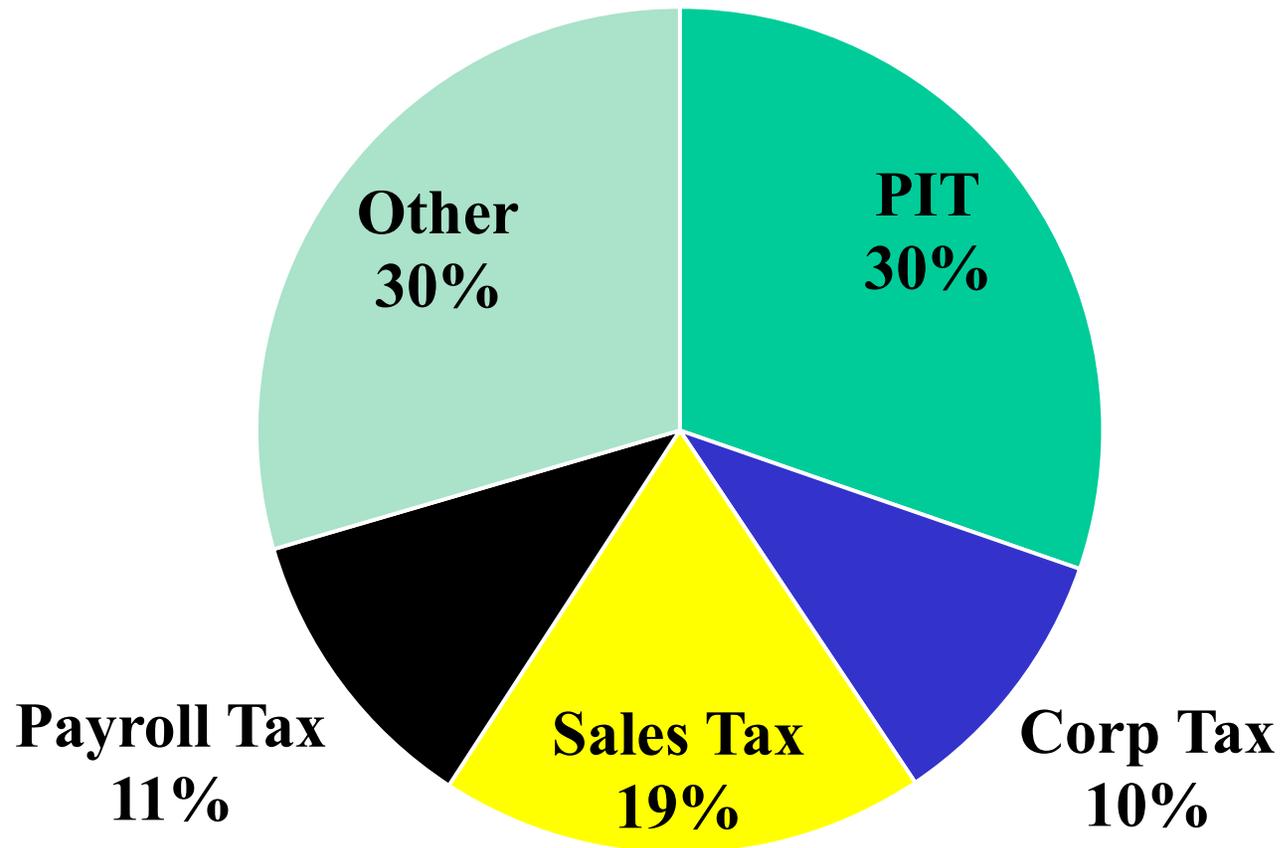
# Tracking Government

- 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)

# 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)

# Composition of Revenues

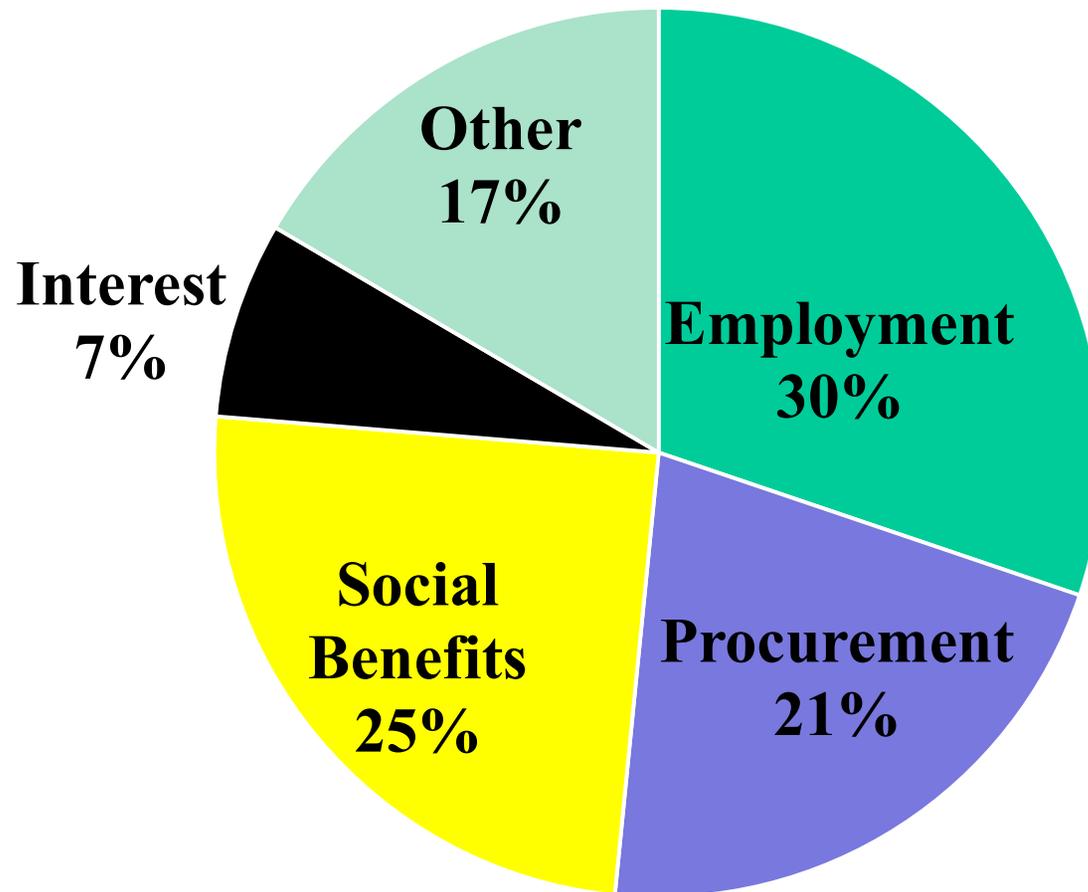


***Total (2019): \$950 billion***

# 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

# Composition of Expenses



***Total (2019): \$930 billion***

# 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

# 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?

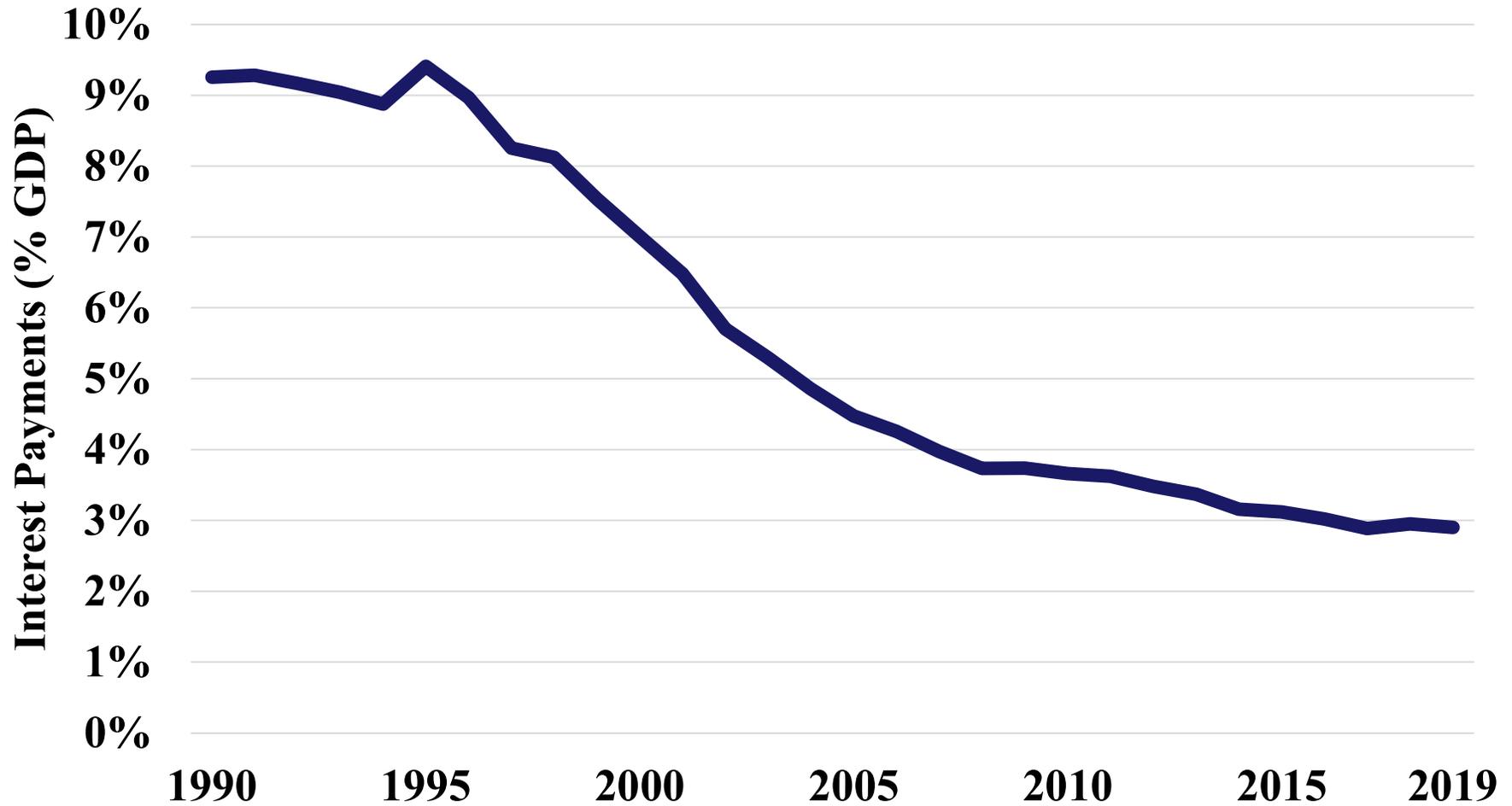
# Deficits and Debt: The Bogeyman of Fiscal Policy

- 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

# 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

# Government Interest Payments



***Total (2019): \$67 billion***

We have a huge deficit, so I'm afraid I must cut your education and health programs.

But you **created** that deficit with your tax cuts for rich investors.

I know. Clever, wasn't it?



# 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.

# 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.

# COVID-19 “Reconstruction Plan”



*A Modern-Day  
C.D. Howe?*

*Minister of Reconstruction, Appointed in 1944*

**Thank You!**

*Let's take 5 minutes...*