

B 3. THE PROPER ECONOMIC ROLES OF GOVERNMENT

1. Government, through a political process, is the agency through which public policy is determined and in part carried out.
 - a) It is one of the means employed to jointly pursue some human values.
 - b) Other means: family, informal groups, organized groups, grants, market-directed business enterprise.
 - c) Government sector supplements or supplants parts of non-government sectors. Market failure re public goods.
2. Government roles differ at local, regional, national, world levels.
3. Relative roles of various means (& of each level of government) differs from economy to economy, and changes over time in any economy.
 - a) Government roles differ in war & peace, large and small country, different cultures, different stages of economic development (even feudal or other pre-industrial system), 19th & 20th century capitalism, democratic socialism & centralized socialism & capitalist or socialist authoritarianism.
 - b) Recognition that its roles in the U.S. today thus represents only one time, place and set of conditions in history (even our history) avoids the myth that there are just two roles for government, illustrated by the U. S. & U.S.S.R. as the latter was until recently.
 - c) There is room for different views as to what is optimal role for government in any given situation.
4. Two distinctions need to be made:
 - a) Between the government sector of an economy and the government's relations to the non-government sector (the private sector).
 - b) Between the scope of the government sector of the economy and the size of that sector. (Changes in the latter do not imply changes in the former.)
5. Scope of government sector of an economy.
 - a) Presumably anarchists, and only they, are without such, or choose not to call some joint decisions & actions government.
 - b) Production of goods or services by some level of government. Usually tax financed instead of sold. Inputs or outputs sometimes obtained (usually purchased) from other sector.
 - (1) Government agency or firm uses own employees or may more extensively buy or contract for outside production.
 - c) The concept of collective consumption: tax-supported streets, roads, parks etc.
 - d) Public education provides the basic education firms require but which firms could not afford for people not tied to the firm.

- e) What are considered appropriate public works?
- 6. Changes in scope of government sector
 - a) Present trends in U.S. and elsewhere.
 - b) Some things now unquestioned as proper for government, but had not always been so in U.S.: e.g. municipal bus company, or public education.
 - c) Privatization a change in the reverse direction.
 - d) What explains changes in scope in the U.S.? Changed ideas, changed conditions, changed power structure?
 - e) Propriety of controversy over changes in scope. What warrants change in scope ? Is future change precluded?
- 7. Comparative scope now. Is U.S. scope wider or narrower than that of other "capitalist" countries? Why?
- 8. In some fields both public and private production exist in different relationships to each other, sometimes competitive, sometimes cooperative or involving subsidy, e.g. education, mailing packages.
- 9. Size of government sector
 - a) Measure by % GNP, direct and indirect employment dependence. and % at local, regional national levels.
 - b) Compare fractions of government outlays which are purchases from business, payments to employees, transfer payments.
- 10. Changes in total government expenditures, and changes in relative and absolute size at each governmental level. Explanations of such changes and trends in U.S. since 1930.
 - a) How much (not much) & what due to changes in scope of government production in U.S. over some period.
 - b) Large increase in transfer payments. Primarily to deal with economic insecurity (chiefly of middle class, plus some anti-poverty transfers).
 - c) Large increase in military expenditures due to war and preparation for war.
 - d) Large increases in state and local government spending for education, & for streets & roads.
 - (1) Due to population growth, the automobile, higher income, and desire for better ed & transportation.
 - e) Growth in size of government not slide to socialism or foisted on unwilling public.
- 11. Significance of size of government sector.
 - a) Economy more stable with big government. if it is stable. What other significance?
- 12. Management of public sector. The size factor for a big country.
 - a) The problems of efficiency, control, accountability,

- bureaucratic mindedness, etc. (only in government? worse?)
- b) Economic criteria: cost-benefit analysis.
13. Government's relationship to the non-government (private) sector of the economy.
- a) Most important is its provision of a legal framework within which the economic system operates.
 - b) Much of this grew historically out of customs enforced by "courts" established by traders.
 - c) A legal framework is necessary, though its character can vary greatly (e.g. discourage or promote monopoly). Contract law, property law, etc.
14. Government sometimes said to be the policeman of the marketplace, enforcing the legal framework.
- a) In principle, maintaining free contract by ensuring against force and fraud (so contracts are entered into knowingly and freely).
 - b) In practice can contribute to but not ensure such freedom, since a wide variety of practices and inequality in ability of individuals to protect against them exist.
 - c) In our framework, competition is supposed to be maintained for both consumer and business to prevent its restriction by other business. Much market power exists, but some uses of it may be restricted.
15. The corporation, now a major type of economic unit, is a legal creation & a most important economic invention (with legally limited liability, bankruptcy law etc.).
16. Government sometimes defines the limits to contract terms, e.g. minimum wage laws, utility rate regulation.
17. Various types of government regulation of non-government sectors in the public interest, e.g.:
- a) Consumer protection, what little effective government protection there is, is based partly upon the inability of the consumer to know and self-protect.
 - b) Local government protection of property. Law & order, local & national, a universal role of government.
 - c) Zoning regulations to protect property values and the quality of life in residential areas.
18. Controversy over government regulation
- a) Always opposition to this as unwarranted government interference with business & economically harmful.
 - b) Economics viewed as originating as the attempt to spell out the economic argument against regulation by mercantilists who were trying to increase the wealth of the nation. But only a selective

reading of Adam Smith can support a pure laissez-faire philosophy.

- c) The self-interest of business is still rationalized by the economic argument that the invisible hand protects the public interest adequately, and even unlimited greed is elevated to a principle by the claim that government has no right to interfere with private enterprise
 - d) Even the Chicago school of economics typically proposes what Henry Simons called a "Positive Program for Laissez faire", enforcing competition.
 - e) The early 19th century English factory regulation was opposed by some people as immoral, and for some it was even worse, uneconomical.
 - f) Even clerics at the time held that legislation restricting the hours of work of women and children in the textile mills to ten hours a day was denying them their God-given rights to work as long as they wished. Was that the real issue?
 - g) Economists argued that all profits were made in the last hours of the day, so reducing hours would destroy profits and the economic system with them.
 - h) From that day on, safety regulations were similarly opposed and for long the legal doctrines of assumption of risk and contributory negligence ruled.
 - i) Labor's right to organize to equalize bargaining power was not fully established legally in the U.S. until the Wagner Act of 1935, and government's role in the labor management remains a bit fluid.
19. Regulation of the private sector is always supposed to be in the public interest, but often the regulated manage to regulate the regulators, and sometimes the regulations actually benefit the regulated by maintaining inefficient or anti-competitive conditions, hence some deregulation.
- a) Government often acts in behalf of special interests in the private sector. What is the rationale, & how good is it?
 - b) Much business talks laissez faire and presses for tariffs and other special interest legislation, e.g. granting patents, etc.
 - (1) How good are the arguments that each is in the public interest too?
 - c) The farmers' demand for price support programs. Is government assistance to farmers warranted? How meet the special problems equitably and efficiently.
 - d) Intervention on behalf of those unable to protect themselves from too harsh operation of the market.

- (1) But all hardship cannot be eliminated in the face of economic change.
20. Government now has a rising new role to protect the environment, lest the world's economic base and even its life-support system suffer irreparably.
 21. Government has undisputed responsibility to maintain "sound money", and since 1930 to promote economic stabilization and growth. Arguments are over methods.
 22. International economic relations are always partly a matter of government policy.
 23. Government taxing and spending affect the distribution of income and wealth, so there is always controversy over its impact, and over what its impact should be.
 - a) Historically, it redistributed income upward. Now only partial offsets to regressivity, & these are criticized.
 24. Government planning of some or much economic activity.
 25. Willingness to use government to promote the general welfare depends heavily on people's general philosophy of government.
 - a) For some people, the greater danger is too much or too powerful government. There is ample historical ground for such fear. For others government should be minimized due to its inflexibility and stupidity, or alternatively, corruption.
 - b) Yet still others believe there is a responsibility to deal with social problems in what is sometimes the only way they could be dealt with effectively, namely, through some level of government.
 - c) Strangely, economic regulations are strongly resisted by some, (if restricting their opportunities to amass wealth), but the state is readily used to invade the civil or political rights others claim.
 - 26 Economic situation also heavily influences use made of government in economic affairs.
 27. Compare economies on which roles government plays in each and how it changes over time.