MYTH #8: Mainstream Economists Want Governments to Play Only a Minimal Role in the Economy

"They [liberals] think that the cure to big government is to have bigger government... the only effective cure is to reduce the scope of government – get government out of the business." – Milton Friedman[1]

Mainstream Economists Want Small Governments That Leave Businesses Alone...Or Do They?

Mainstream economists and their conservative followers often talk about the need to shrink government; it is, in fact, one of their primary platforms. They claim that government policies and regulations interfere with the natural process of money-making that will cause total wealth to grow, thereby delivering benefits to all. They cite absurd regulations (it is not difficult to find examples); they complain that taxes on the wealthy and on corporations reduce incentives for hard work; and they argue that only a 'free market' will lead to the most rational distribution of resources and to the best economic results. Shrinking government, they proclaim, will provide incentives for investment and hiring. An increased minimum wage mandated by government, on the other hand, will lead to a devastating loss of jobs while taxes on the rich will cause economic growth to slow. The key argument of conservatives and mainstream economists is that government intervention makes everyone poorer.

A large number of conservative think tanks regularly publish anti-government sentiments for the media to deliver to the public in an attempt to persuade the public of the wisdom of mainstream economics. For example, Sheldon Richman of the Future of Freedom Foundation argues that: "Bureaucrats, who necessarily have limited knowledge and perverse incentives, regulate by threat of physical force. In contrast, market forces operate peacefully through millions of cooperating participants, each with intimate knowledge of her own personal circumstances and looking out for her own well-being. Bureaucratic regulation is likely to be irrelevant or (more likely) inimical to what people in the market care about. Not so regulation by market forces."[2] Ah, what an ideal world the quote paints, one in which caring companies and executives provide exactly what informed and rational consumers need and desire, offered at fair prices, and manufactured by workers paid reasonable wages, all free from obtrusive government interference. No wonder such ideas gain a following.

Conservatives around the world use similar tactics to justify their opposition to measures that those concerned about social justice are trying to enact. Detractors of land reform call it a violation of property rights that will prevent long-term investment and productivity. Factory owners, regardless of how much they themselves earn, claim that they cannot afford to raise wages or to maintain 'ridiculously high' safety standards in their factories. (After all, don't employees bear some responsibility for being safe?) Those who object to the nationalization of oil or mineral companies say that governments are incapable of running them efficiently. Conservatives and mainstream economists condemn as bad economics whatever might benefit the poor (or the population in general); whatever benefits the wealthy they call good economics.

Those who push for war in Iraq (or Libya or elsewhere) claim that profit never enters their decision-making, even if they stand to make millions or billions of dollars from weapons sales, security contracts, newly available supplies of natural resources and markets, and reconstruction. Mainstream economists claim that while they are in fact deeply concerned about the poor, most of the current policies that were designed to benefit them (such as the minimum wage, more generous income supports and social programs, protection of their rights to land, and so on) are ill-considered, useless, and – horror of horrors – communist. These policies, they argue, do not help the poor to escape poverty; instead, they promote laziness and harm employment (who would be willing to work for low wages if they could get free welfare?[i]). The free-market based solutions that mainstream economists endorse, such as microcredit, on the other hand, are labelled as appropriate and helpful.

Their arguments can indeed sound appealing. It is sometimes enjoyable – and it can clearly resonate with one's own experiences or sentiments – to hear laments about stodgy bureaucrats who misuse taxpayers' hard-earned income and who enforce burdensome regulations. Many people complain about 'red tape'. It can be encouraging to hear stories about the much greater efficiency of the private sector. Because of these arguments, conservatives of *all* social classes tend to defend policies that benefit the wealthy and powerful, even if they themselves actually stand to lose by those same policies. There is perhaps a natural tendency to identify with the rich rather than with the poor.

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[i] When mainstream economists and their followers acknowledge that the poor will sometimes take welfare instead of going to work because work does not pay enough for them to survive, their response is not to enforce higher wages so that people can live on their earnings. Rather, they suggest reducing benefits, so that the poor have no choice but to take any job available, no matter how miserably paid: "…if Congress and state legislatures are serious about reducing welfare dependence and rewarding work…states should shrink the gap between the value of welfare and work by reducing current benefit levels and tightening eligibility requirements." Michael D. Tanner, "Why Get off Welfare?" *Los Angeles Times*, 22 August 2013.

What do mainstream economists really want?

In truth, the idea that mainstream economists want small government is hogwash. Mainstream economists only object to government intervention when its aim is to assist the poor or to protect workers or the environment, for example by increasing the minimum wage, strengthening standards for worker safety, or preventing environmental pollution. Not only do mainstream economists have no objection to government involvement in the private sector when it assists companies to wield influence and make ever-greater profits, but — despite their claims — they *actively promote* such intervention. Mainstream economists want government intervention when it provides them with well-maintained roads and a generous supply of the natural resources that they need to manufacture their products. They like tariffs to protect national industries while supporting treaties that prevent their trading partners from imposing similar tariffs. They also support a rapidly revolving door between government and the private sector that sometimes makes it difficult to distinguish between the two. Corporate lobbyists and government officials make cozy bedfellows; the more powerful the lobby group, the greater impact it has on government policy making. In fact, in many countries and at many levels, corporate interests already dictate government policy. Rather than wanting smaller governments and fewer regulations, mainstream economists and their followers want to *be* the government.

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Canada's 'spy watchdog' appointed someone who had been on the board of directors of a petroleum company to investigate alleged spying by environmental activists who objected to a pipeline that was being built by that same company.[3] *Official links to oil companies were strong under American President George W. Bush's administration. His family has run oil companies since 1950. Vice President Dick Cheney was CEO of the oil company Halliburton, which also won controversial contracts for reconstruction in Iraq. National Security Advisor Condoleezza Rice sat on the board of the oil company Chevron. Commerce Secretary Donald Evans was the CEO of a natural gas company. Bush's family also received significant financial support from the bin Laden family and other members of Saudi Arabia's oil-wealthy elite.*[4] *President Obama's administration has strong ties with various companies, including General Electric, Ford, and Dow Chemical that evade taxes as well as engage in other nefarious practices.*[5]

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All too often, mainstream economists have gotten their way, and the negative results are evident in many countries: greater income inequality, reduced protections for workers and the environment, a decline in public services, and unregulated financial practices that have brought entire economies tumbling down. The policies advocated by these economists have brought about, at least in the United States, record levels of government debt.[6] They have also led, in some areas, to increased rather than reduced government interference in people's private lives.[7] Perhaps their 'greatest' achievement has been in the corporatization of government.

How clearly can we distinguish between the public and private sectors?

While acknowledging that corporations often exert enormous influence on governments through their campaign contributions and lobbying, most people naturally see corporations and government as separate entities. Corporate influence is so great, however, that it can actually be difficult to draw the line between where one stops and the other begins. It is extremely common for former government regulators to later work for the private sector and for company employees to spend a period working for the government agencies that are supposed to be regulating their industry. American Congressional interns often go on to become industry lobbyists, at which time they lobby the very politicians for whom they formerly worked. People from the corporate sector also typically fill top government posts, including that of president.

On the surface, this 'revolving door' makes sense. Those who have worked for a company may be experts on how the company or industry works and thus are seemingly suitable as regulators. If such people were truly loyal to government while in public office, their inside knowledge of corporations could prove invaluable. Unfortunately, what too often happens is that people transition regularly between the public and private sectors, using their time with the government to help them learn about the very regulations that they can then assist their companies to evade, and using their government connections to help them in their fight. It is also all too common for people to perceive government service as a way to gain experience and influence which will help them to a generous corporate salary in the future.[ii]

[ii] The process is not limited to government-corporate revolving doors. PepsiCo has hired very senior people at the World Health Organization (WHO), including a former Director-General; they had worked on WHO's international tobacco control treaty (the Framework Convention on Tobacco Control). Rumour has it that the appointments are in order for Pepsi to benefit from their experience in case the WHO decides to attempt similar regulations with soft drinks. For a list of influential health people accepting their salaries from PepsiCo, see http://www.pepsico.com/Annual-Reports/2007/purpose-human-hw.html

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The influx of private sector actors into the government sector is an international phenomenon. In India, for example, a study found that 128 of the 543 members of the 15th Lok Sabha (the lower house of the Indian parliament) are businessmen who bring their business interests to bear while debating public policy.[8] *The oil company Shell, in a leaked American diplomatic cable, bragged of putting its staff "into all the main ministries of the Nigerian government, giving it access to politicians' every move in the oil-rich Niger Delta" and thus knowing "everything that was being done in those ministries."*[9]

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Corporate influence is so pervasive that it is easy to take it for granted. As John Kenneth Galbraith repeatedly observes in his writing, governments around the world spend vast sums on the military but little on education or health. Missiles take precedence over museums. Education in science, engineering, and accounting is deemed important, while education in art, literature, philosophy, anthropology, and history – the humanities – is not.[iii] The explanation lies in what large powerful corporations produce and what their needs are in terms of trained manpower.

Worse, when things go badly, people can blame it all on government, and then argue for the need to 'shrink' government and increase the role of the private sector. That 'solution' is akin to inviting the fox into the chicken coop since it is difficult to keep him out. It is not possible to eliminate the links between the public and private sectors, but it is possible and very important to liberate governments from undue corporate influence.

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A bill in the California legislature to tax sugar-sweetened beverages was defeated following heavy lobbying by the major soft drink manufacturers. On the eve of the vote, PepsiCo organized a reception at the legislature after which it invited a couple of key legislators to dinner. While bills to regulate farmers' markets moved smoothly through the legislature, anything addressing Big Food was voted down quickly. Pure coincidence, of course.[10]

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[iii] In fact, this situation is so well known and familiar that it may not appear odd in the slightest. Imagine the American government investing heavily in public housing rather than space travel and weaponry?! Or spending a trillion dollars on a genuine 'war against poverty' that involves revamping the inner cities and their schools and creating good job opportunities for the chronically unemployed, rather than on a distant war, one purpose of which seems to be to further enrich military corporations.

Subsidies help the rich but harm the poor

The same people who argue for small, weak, and ineffectual government still fully expect their government to provide generous subsidies for corporations. In the United States, federal budgets and deficits have grown, not shrunk, when Republicans have been in charge, despite the fact that they slashed social budgets. Ah, but mainstream economists argue that a generous safety net discourages people from working; given the option of living decently and enjoying leisure, people will naturally take the easy option. Referring to American food assistance to the poor, Robert Rector of the Heritage Foundation says, "Some people like to camouflage this by calling it a nutrition program, but it's really not different from cash welfare…food stamps is quasi money." Rector then claims that receiving food assistance discourages work. He feels that recipients should be forced to work for the benefits, as many are now forced to do for other welfare payments: "The food stamp program," says Rector "is a fossil that repeats all the errors of the war on poverty."[11] What mainstream economists like Rector ignore is the possibility that insufficient pay also creates a disincentive to work. Note the assumptions: in order to be motivated to work, the rich need high pay…and the poor need poverty.

There are a few other problems with Rector's argument. Even the most generous safety net leaves a lot to be desired. It does not deal, for example, with the effect on the ego of being jobless or of accepting government assistance. Nor does the evidence indicate that people spend long periods using safety nets.[iv] According to congressional testimony made by an expert on the issue, "In an 'average' year, about one-half of the [welfare] caseload leaves the welfare rolls. … The majority of families who leave the welfare system do so after a relatively short period of time – about half leave within a year; 70 percent within two years and almost 90 percent within five years."[12] As for the few who do remain on welfare for long periods, is cutting their aid really the best way to solve the supposed problem of the 'lazy poor'? In the grand scale of things, subsidies to the rich cost taxpayers much more than the limited assistance offered to the poor.

No such objection arises with respect to helping the affluent. Government subsidies to the wealthy take many forms. Governments fund research that leads to new products, including pharmaceuticals, from which the companies alone profit. They pay companies to provide services to their citizens that the government used to provide directly. They allow companies to hire workers at untenably low

[iv] The criticism, however baseless, led to a change in the nomenclature in the United States from Aid to Families with Dependent Children (AFDC) to Temporary Assistance to Needy Families (TANF).

salaries and to deny them basic benefits. They allow corporations to register offshore and to engage in a range of other tax avoidance strategies. In 1983, 'only' ten percent of American company income was funnelled through offshore tax havens as a means of avoiding taxes; that figure rose to twenty-five percent in 2009.[13] Allowing companies to avoid taxes is the same as providing them with financial assistance.

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"Poor people in this country lack the shield of glib self-confidence that well-educated, affluent citizens often use to deflect criticism of their own entitlements. Ask a group of young professionals how many of them receive federal housing assistance. Very few will raise their hands. Then ask how many deduct the interest they pay on their home mortgages from their income taxes. Many will get huffy at the very idea that this could be considered public assistance. Yet this tax deduction costs the federal government more than twice as much as is spent on low-income housing assistance and low-rent public housing. There are no limits or restrictions on it – the deduction applies to summer homes and beach compounds as well as full-time residences. This deduction is worth about $5,000 a year, on average, to taxpayers making more than $200,000."

– Nancy Folbre[14]

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When faced with economic crisis, then-president of the United States George W. Bush convinced government decision makers to agree to a roughly $700 billion bailout of failing banks and businesses. Bush, a professed advocate of small government, somehow did not object to that particular subsidy: "I'm a strong believer in free enterprise, so my natural instinct is to oppose government intervention," he said at the time. However, "these are not normal circumstances. The market is not functioning properly. There has been a widespread loss of confidence."[15] The Average Person, losing confidence in his ability to support his family after losing his job, might wonder when he gets his generous bailout package. Bush did not see the value of bailing out small borrowers who had been duped into taking out untenable mortgages.[v] Rather, he sought to give corporations the chance to make even more money with even less accountability, with taxpayers footing the bill.

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[v] While researching this book, I came across numerous articles that refer to the mortgagees as greedy and stupid – as if they are to be blamed more than those who pushed the mortgages on them. It is clear that the market was functioning exactly as it was designed to function, and that if better government regulations had been in place, the economic free-fall would never have happened.

In 2003, taxpayers in the United States and the European Union spent (however unknowingly and unwillingly) an estimated $400 billion dollars in subsidies to their farmers.[16] This would be fine if the government used such funds mainly to support poor farmers and to feed the poor. Too often, though, these subsidies simply benefitted rich agricultural companies, contributed to the blocking of imports from low-consumption countries, and failed to benefit the poor in any way. Subsidies to American corn farmers allow them to sell corn in other markets at far less than the production cost, which has helped to wipe out corn farmers in Mexico.[17] Meanwhile, trade rules imposed by the WTO prevent those same countries from exporting their products to Europe and America. As journalist Nick Mathiason, business correspondent at the Bureau of Investigative Journalism, points out, "In effect, rich countries say to the rest of the world: you liberalise, we subsidise. So much for free trade."[18]

***Hint**: When you read a newspaper article about 'wasteful government spending,' see if it refers to military expenditures, subsidies to corporations, and tax breaks for the rich, or to social spending.*

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How does one justify such stinginess towards those who need support the most accompanied by such generosity towards those who need it least?[vi] Economic arguments meant to silence the uninitiated come into play here. Mainstream economists claim that a healthy economy will benefit all by bringing about full employment and prosperity. They argue that to subsidize the poor directly will simply maintain the cycle of poverty and that it would be better and more sustainable (indeed, more generous) to build a healthy economy so that all those who are willing to work will have a job and can thus escape poverty.

American President Ronald Reagan was by no means the first to treat the poor as undeserving, lazy, and morally corrupt.[vii] But Reagan turned this practice into a

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[vi] This is not entirely accurate; some companies are only able to operate at a profit due to generous government subsidies. But it is easy (at least for those who have not received formal training in mainstream economists) to see that the need of the poor to eat and to be decently housed is greater than the need of the corporate CEO to make millions of dollars.

[vii] Is the tendency to consider the poor as immoral universal? In Bangladesh, one of the reasons officials give for banning rickshaws is that the men who pedal them engage in 'antisocial' activities such as gambling and frequenting prostitutes. Even if it were true, it would not seem quite as heinous a crime as, for instance, cheating the elderly out of their pensions, as Enron executives did. And of course, some corporate executives also gamble and visit prostitutes, but since they do so in sufficiently expensive ways, it is somehow considered to be legitimate rather than antisocial.

high art. His description of the fictional 'welfare mother' as the driver of a luxury car who was cheating the system and living high on the hog touched a resonant chord with Americans.[viii] He did not have to provide any supporting details; everyone knew that she was black, probably unmarried, and had children by multiple partners. Although Reagan's story had no basis in reality, it afforded people relief from any guilt that they might feel about the poor since, after all, the poor deserved their lot, or were not as poor as they pretended to be. How pleasant to be told that you shouldn't have to pay high taxes or share your wealth with the poor! How enticing to believe that you too could someday become a millionaire (this was in the 1980s, before the Age of the Billionaire)! Reagan made it that much easier for his followers to attack social programs while defending corporate subsidies.

This contradictory approach to the role of government in the economy comes at high economic and social costs. Governments could use the tax dollars that they currently fail to collect from the very rich and from tax-dodging corporations to pay for many needed activities and services. But exorbitant costs to government and the public are accompanied by exorbitant profits for a powerful few; it is far cheaper for corporations to pay some bribes and some lobbyists than it is to pay their taxes.[ix] It requires a truly strong democracy – one in which the interests of the public are represented, not just those of the wealthiest corporations – to prevent such wasteful and harmful handouts to the rich and such stinginess to the poor.

Government regulation

Another aspect of 'small government' that conservatives/mainstream economists demand is less government 'interference' (read regulation). They claim that regulations slow the economy, interfere with the workings of the 'free market' system, and curtail important and valuable freedoms. They argue that measures meant to protect workers' health, prevent environmental contamination, or address climate

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[viii] Did she exist or did Reagan invent her? There are numerous views, naturally. According to one (Josh Levin, "The Welfare Queen," *Slate*, 19 December 2013), she did exist but only cheated the government out of $8,000, hardly a major sum; others argue she was completely fictional (see, for example, Paul Krugman, "Republicans and Race," *The New York Times*, 19 November 2007).

[ix] My colleagues sometimes question why governments agree to keep taxes on tobacco low, given how much the government loses as a result. But the individuals making the decisions do not gain from higher tax revenues. For any government official, a bribe or contribution from the tobacco industry is pure gain, though only a tiny fraction of the amount that the tax cut costs the government. Thus seemingly illogical decisions are made quite rationally on the basis of individual gains.

change will reduce the efficient workings of corporations and thus, like the minimum wage, will slow business and lead to massive unemployment and poverty. Apparently, the world would be a better place if all those well-intentioned but ill-informed 'liberals,' who want to impose safety standards and other regulations to protect workers, consumers, and the environment, would just stop meddling in the system. Dismantling regulations in response to corporate lobbying, however, inflicts huge public costs: health, environmental, and even financial. It is vastly less expensive to regulate banks than to bail them out when mismanagement occurs; vastly better to prevent than to deal with oil spills.

Pundits are still arguing about whether George W. Bush's bailout of the banks and auto industry was needed to prevent a devastating crash or whether it was simply a final, spurious gift to wealthy corporations that were suffering the consequences of greed and utter mismanagement. Certainly, ugly details abound. For instance, nine banks that received a total of $175 billion in bailout funds used $32.6 billion of that money to pay executive bonuses.[19] What is clear about the bailout is that the need for it arose directly from Ronald Reagan's mantra of 'small government.' That mantra led to a craze of deregulation and the repeal of laws designed to keep the banking system and other critical parts of the economy stable. That unravelling of protective regulations led to the devastating economic crisis that justified Bush's bailout.[20]

The event would be less catastrophic if people at least learned a few lessons from it (lessons that could have been learned from other past events, but never mind – better late than never). One is that human greed knows no limits. Another is that, when uncontrolled by outside forces, that greed can destroy the very system that feeds it. Government regulation of corporations can benefit workers and the environment. It can protect public health. It can also preserve the entire economic system from collapse. People can also learn that corporate executives will always oppose sensible regulations, even those that could save their companies from self-destruction.

Few people would wish to live in a world completely free of government regulation and intervention. Some regulations are indeed absurd, but others are essential. The forty-hour work week, maternity leave, and various other worker, health, and environmental protections are all vital and – where they exist – did not come about through the voluntary actions of corporations. In a world without government intervention, everything is permissible.[x] Imagine allowing chemical compa-

[x] I always smile when I read a food label that mentions 'permitted flavourings' – well, I should certainly hope they aren't adding forbidden ones!

nies to sell any product that they wish, with the consumer being 'adequately' informed by a skull and crossbones on the label.

Stronger regulations that prevent pollution mean more freedom to swim and to fish in local streams and rivers. Regulations that prohibit the promotion of cigarettes mean more freedom from addiction. The enforcement of manufacturing standards means freedom from anxiety over the safety of our medications and our children's toys. Regulations on food additives mean freedom from anxiety about what we eat. Less freedom for corporations means more freedom for individuals. However unpalatable regulations may sound in the abstract, they appear more reasonable when one looks at specific cases.

Meanwhile, corporations that claim to oppose regulation on principle do not actually argue against all regulations and policies.[xi] They like regulations that keep small companies out of their business, they like tariffs, and they especially like government contracts.

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The corporate take on improving worker safety. *How would industry like to deal with worker safety? They propose a voluntary model. An industry-supported foundation to improve worker safety lists the following initiatives:*

"Building bridges between members of the community – parents, young workers, educators, employers, employees, and community leaders.

"Transferring knowledge between participants using a highly successfully face-to-face model.

"Inspiring courage in young workers to stand up for their personal safety and rights.

"Influencing change within corporations to make health and safety a priority."

The proposals are extremely vague. They do not mention periodic inspection of the workplace by workers to locate and address safety problems. Their suggestion that young workers should find the courage to stand up for their rights, rather than that corporations should be forced to recognize those rights, is a rather stunning shift in responsibility away from the powerful bosses and corporations to the vulnerable worker. The foundation's corporate partners include Shell and ExxonMobil.[21]

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Who pushes deregulation?

The public often benefits from regulations; corporations and mainstream econo-

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[xi] For example, both the 2010 African hunger plan and the 2012 Farm Bill in the United States provided generous policy and regulatory benefits to the agro-giant Monsanto. See Josh Sager, "Monsanto Controls Both the White House and the US Congress," http://www.globalresearch.ca/monsanto-controls-both-the-white-house-and-the-us-congress/5336422

mists generally oppose them (unless, of course, they stand to benefit from them). Speaking at the Eighth Global Conference on Health Promotion in Helsinki, Finland, Dr. Margaret Chan, Director-General of the World Health Organization (WHO) voiced concern about two recent and related trends. "The first relates to trade agreements. Governments introducing measures to protect the health of their citizens are being taken to court, and challenged in litigation. This is dangerous," she stated. "The second is efforts by industry to shape the public health policies and strategies that affect their products. When industry is involved in policy-making, rest assured that the most effective control measures will be downplayed or left out entirely. This, too, is well documented, and dangerous."[22]

Corporatocracy is not the same thing as small government; it is large government controlled in large part by the corporate sector and operating on its behalf. There is little difference between concentrating power in a centralized government unresponsive to the public, as under a dictatorship, and concentrating power in a government controlled by similarly unresponsive corporations.[23] A democracy wherein corporations wield far more power than citizens is democratic in name only. Unfortunately, far too often that is the only kind of democracy that exists. According to MIT professor and public intellectual Noam Chomsky, "A democracy is a system in which you are free to do whatever you like as long as you do what we [corporate government] tell you."[24]

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With friends like these, who needs enemies? *When a government puts forth a set of policies as the best ones to reduce poverty that just happens to be the exact mix most favoured by giant corporations and the wealthiest elites, one has full right (and indeed obligation) to step back and question that claim. When corporate executives object to policies that would benefit the environment or slow its destruction, but would also harm the profits of giant corporations, it is, likewise, reasonable to question their claim that the policy would result in job losses. That scepticism should be reinforced when you notice that some of those same people who talk about job loss actively work to reduce employment in their own countries. For instance Mitt Romney, while running for president in the United States, talked incessantly about the need for local job creation. Romney also happens to be the founder of Bain Capital, which holds fifty-one percent of the shares of a company called Sensata. Sensata used to manufacture auto parts in Freeport, Illinois, but shut down in order to take advantage of lower labour costs and laxer laws in China. Sensata/Bain banks much of its profits in the Cayman Islands, in order to avoid paying American taxes.*[25]

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Large corporations are not alone in seeking to undo helpful regulations. They have strong allies in international institutions. It may be difficult for a reader in North America or Western Europe to imagine the extent of influence that the

World Bank, World Trade Organization (WTO), or the International Monetary Fund (IMF) have on the decisions made by policymakers in low-consumption countries. Lacking the resources to declare financial and political independence, the leaders of those countries seek aid and trade concessions from the richer countries and, in return, are expected to bend to their rules.

All countries trade with others; most or all countries run up deficits at some point. But such common practices have very different results in rich and powerful countries than they do in poorer and weaker ones.[xii] When rich countries have a trade deficit, they can allow that deficit to keep growing. When poor countries have deficits that they can no longer service, they must borrow the money from the World Bank or another international agency, which in turn makes the money available only with a large set of conditions.[xiii]

In low-consumption countries, people are told that the government must comply with WTO regulations in ways ranging from the trivial to the serious: from stopping the sale of cheap CDs in Phnom Penh to preventing Thailand from enacting stronger controls on foreign cigarettes than it has on domestic ones. The World Bank congratulates a government agency for shedding employees. It 'helps' governments to draft laws designed to reduce regulation.[xiv] It pushes governments to privatize large swathes of the public sector. It applies pressure on governments to pass a range of policies, including deregulation of the banking and other sectors, which seem aimed more at enriching international corporations than at improving local living conditions.

***Hint**: It is wise to be suspicious when extremely wealthy people say that they object to tax increases and government regulations because they will harm the poor or middle classes.*

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Don't regulations reduce employment?

If regulations are so cumbersome that they cause companies to go out of business, then they could result in a loss of jobs. But when companies pay CEOs enormous salaries and benefits packages, then claim that simple measures meant

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[xii] In the case of the United States, the independence is by no means total. With Saudi Arabia and China owning so many of its assets, the American government must make some concessions. This might help to explain some of the oddities of how the country dealt with 9/11, since it did not wish to upset its Saudi banker friends.

[xiii] I discuss this in more detail in the myth about the BWI.

[xiv] Not always; I reviewed a draft traffic law prepared under a World Bank project. The law was overly-prescriptive and draconian, and aimed at making it nearly a crime to walk or ride a bicycle.

to help their employees work in safer environments would bankrupt them, it is hard to take them seriously. In many cases, simple and inexpensive measures such as unblocking or unlocking emergency exits are sufficient to prevent injuries and deaths. A recent American study finds that Occupational Safety & Health Administration (OSHA) inspections reduce workplace injuries and worker compensation costs, so they can actually save companies money: "OSHA doesn't kill jobs; it helps prevent jobs from killing workers," says Dr. David Michaels, Assistant Secretary of Labor for Occupational Safety and Health in the United States.[26] Injuries mean lost production; fewer injuries should thus benefit production. As David Levine, Professor of Business Administration at the University of California, Berkeley and co-author of the study, explained in congressional testimony:

> These inspections protect workers' health and safety. The randomly inspected firms experienced nine percent fewer injuries and had 26 percent lower workers' compensation costs than the control group of similar firms. Workplace inspections cause no discernible damage to employers' ability to stay in business and no reductions in sales or credit ratings, according to our research. Nor did we identify any effects of workplace inspections on employment or wages. These inspections save employers billions of dollars a year, and a figure that only grows when we include injured workers' lost earnings.[27]

Stronger labour protections could cause some industries to shift their operations to places with lower worker protection standards. Shifting operations for this reason – which essentially amounts to protecting executive salaries and bonuses at the expense of worker's health and safety – is morally wrong; it should also be illegal. This is why international standards are needed so that all workers are oprotected and companies no longer have the option of shifting their manufacturing base to places sufficiently desperate or corrupt to sacrifice health and the environment for jobs. Short of that, activists need to make noise about dangerous working conditions. They also need to be vocal about the benefits of other regulations to protect workers, public health, and the environment.

Towards a Better Way: Finding the Right Role for Government

"Deregulation and competition when consumers have no real power of choice will always lead to the abuse of power. It is a pure illusion to expect natural monopolies to transform into perfect competitors; calling something a 'market' does not a competitive market make." – James K. Galbraith[28]

"…governments need to play a developmental role, with implementation of integrated economic and social policies designed to support inclusive output and employment growth as well as to reduce inequality and promote justice in society."
– UNDP, *Rethinking Poverty*[29]

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It makes little sense to argue whether ‘small’ or ‘big’ government is better; size is relative. A more useful issue is the appropriate role of government in regulating industry, promoting equality, and ensuring the protection of the poor, vulnerable, and the environment from corporate harm.

Subsidies

Some government subsidies to the private sector are inevitable. Factories, offices, and laboratories all benefit from the infrastructure that governments provide to their citizens. While governments charge users for water, electricity, trash collection, and other services, it is not possible or practical for governments to charge companies for every advantage they receive. After all, many of those advantages are indirect, involving not just the manufacture of products but their use and disposal. This includes roads, police protection, and general infrastructure that allow society to function. But the inability to come up with a precise system of charging corporations for the advantages they receive does not mean that they should be allowed to evade payment entirely. Corporate tax is an important way to help ensure that businesses pay for some of the benefits that they receive. Those concerned about social justice and alleviating poverty need to inform themselves and the public about the ways in which corporations avoid paying their taxes and to campaign to end those practices.

In addition to tax avoidance and tax holidays are other subsidies, such as electricity and water provided at reduced cost. Concerned people need to learn about those subsidies and inform others, in order to persuade politicians to limit or eliminate these subsidies and use the savings for services that benefit the poor. It would be easier to persuade people that corporations should pay sufficient taxes to begin to compensate for what they receive if the people had more information about the nature and extent of such subsidies. Identifying and publicizing some of the more absurd and damaging ones would be a critical step towards ending them.

Safety nets

Better wages and a comprehensive safety net would not only benefit the recipients, but also the economy overall. Using higher taxes on the rich to pay for the safety net makes a direct contribution to reducing inequality. During recessions or other economic slowdowns, people are reluctant to make purchases. Either they do not have enough money, or they are afraid to spend what little they have, or they anticipate future price declines. As a result, businesses produce less. The process builds on itself, and things continue to worsen. Admittedly, this is a simplistic picture of a complicated process, but it is nevertheless true that one way to break the self-reinforcing cycle is to introduce more money into the system and put it into the hands of those who are most likely to pass it on quickly: those with the fewest material resources and the greatest needs. Welfare payments, unemployment insurance, and a higher minimum wage all work to stimulate spending and thus prevent slowdowns and crashes. Such payments, as late British economist Richard Douthwaite observed, have "ensured that, whenever the rate of joblessness has increased, larger amounts of money have automatically been transferred to people who spent all of it immediately. This is a very effective way of compensating for the loss of spending power."[30] As the economy improves, more and better jobs become available, and fewer people will require government assistance.

Regulations

One reason why governments are essential is that they give the powerless some protection from the powerful. A similar situation exists when individuals or small groups of people want to protect themselves and their environment from the actions of large corporations. It is unreasonable to expect that individuals can prevent companies from polluting rivers or ensure food safety standards or basic worker protections. The public needs government to act on its behalf.

It is not hard to see that an entire absence of government regulation would mean chaos, for not only consumers but also corporations. So of course government should regulate the private sector. Who else but government has the power and authority to protect the population from corporate lies, half-truths, and terribly persuasive advertising? Who else but government stands a chance at limiting environmental pollution from business activities and ensuring (with at least some success) a safe food supply?

True, some regulations appear ridiculous. For example, the European Union has banned the sale of eggs by the dozen, overly curved cucumbers, the blowing up of balloons by small children without adult supervision, and eating your pet horse.[31] But there is a flip side to at least some of them. As one commentator points out,

> At first, the regulations seem ludicrous, but another look shows them to actually be quite sensible, whether it is norms for truckers' seats (which has to do with ensuring safety), regulating the trade in bull semen (in this case, exchanges were forbidden in order to reduce the chance of livestock epidemics), or issuing passports for dogs and cats (which makes it easier to take the quadrupeds along on holidays). Standards and norms make life easier, and they are to be thanked even for banal, everyday things such as that letter stationery fits into an envelope, a chair fits under a table,

> and a credit card fits into a wallet. They ensure that consumers can be confident that their purchases meet certain conditions. They also help to reduce production costs.[32]

Where regulations are lacking, people suffer. Workers in unregulated meat processing plants must do their job so quickly to meet production quotas that serious injuries – not to mention contamination – are almost guaranteed. Garment factories lock workers in during the day to prevent theft, leaving workers to die when there is a fire. The ship breaking industry in Bangladesh, wherein workers attempt to salvage what they can from submerged ships, is unregulated. It is also famous for exacting a high death toll among its employees.[33] In some factories, workers are fined the equivalent of three days' pay for each day they miss and lose their jobs if they arrive just slightly late.[34] That a company is in a position to exploit its workers is insufficient justification for allowing such exploitation. Surely in these situations more regulations governing workplace safety and workers' rights would be a good thing.

What is true of industry applies equally well to other sectors. Deregulation of the banking sector has repeatedly led to economic chaos. There are very good reasons why governments should try to control the flow of money in, and more particularly out of, their countries. It is difficult to maintain a stable economy when investors can inject enormous sums quickly, and just as quickly – within days or even hours – pull that money back out. When the International Monetary Fund successfully convinced many Southeast Asian countries to remove many of their rules governing the flow of funds, the result was an economic crash that led to major devastation in several countries in the 1990s. Deregulation of the banking and other sectors in the United States in the 1980s contributed to the crashes years later. Many people lost their jobs and homes. A system that rewards short-term gain no matter what the consequences and that fails to hold gamblers responsible for the results of their actions will inevitably cause problems if sufficient controls are not in place. "When the masters of the universe who control decision making on Wall Street are confronted with enormous short-term personal rewards and minimal long-term downside risk, then disaster awaits," says Bryne Purchase, former Chief Economist and former Deputy Minister of Finance and of Revenue in the province of Ontario, Canada.[35] Regulation, when done well, protects not only individuals but also the financial sector itself.

Finally, if government should not interfere in the private sector, then we should also challenge private sector interference in government: the revolving door between government and corporate jobs, all the lobbyists, the corporate officials who run for public office, and so on.

There are loudvoices speaking out against government regulations and control. Others must respond with even stronger arguments in favour of a vigorous public sector with active civil society involvement that will complement and constrain industry for the benefit of (virtually) all. Where regulations are absurd, governments should certainly discard or improve them. But it is unwise to suggest that simply reducing regulations will lead to a better situation. Just as privatizing various government services is no solution to existing problems,[xv] so throwing out the regulatory system in the hopes that the marketplace will provide something better is an exceedingly dangerous idea.

When people talk about the harms of regulation, it helps to turn the issue on its head and ask who or what will be harmed if governments *fail* to regulate industry. There are at least four areas that merit intervention and regulation: 1) protection of the planet to avoid environmental destruction; 2) protection of vulnerable workers; 3) protection of consumers from defective, dangerous, or damaging goods and services; and 4) protection of the economic system from self-destructive tendencies.[36]

As NGOs and as individuals, we need to campaign for strong and well-enforced regulations that reduce the damage that industry can otherwise cause to the environment and that ensure that industry pays for its clean up. We need to work towards regulations that ensure a living wage and safe and humane working conditions. We should demand regulations that protect consumers and speak out for regulations that can protect the economic system from predatory harm. We should counter arguments that government regulation of industry is an unnecessary and damaging cost, and show how instead regulation is a vital form of protection that makes wellbeing a possibility.

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How would our friend Prakash feel about government regulations? Certainly if his children did decide to go to work in the city, he would want to know that strong regulations regarding job safety existed. If he lived in a city and had to buy rather than grow his food, he would also appreciate strong regulations that limit the use of agricultural chemicals and other additives in the food supply. And if his government invested more on the poor and less on propping up businessmen, then the wealthy man who wished to help him might no longer feel any need, or be in as much of a position, to do so.

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Rejecting corporate doublespeak

The arguments about shrinking government so that corporations can contribute to prosperity sound good. It seems far more empowering to provide the overall

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[xv] See the Myth on Privatization for more discussion of this issue.

conditions that will allow the poor to prosper than to keep giving them handouts Selfish considerations aside, it is no wonder that some would favour such an approach. Unfortunately, experience has proven repeatedly that this way does not work. It suggests that in a thriving economy, everyone benefits, despite more than ample evidence of growing inequality. It values capital far more than labour, and ignores, in the words of Bryne Purchase, "the roles randomness and chance play in individual achievement."[37]

Those concerned about these issues need to learn to look beyond the attractive front that giant corporations create for themselves and to understand what corporations are really doing to their workers, to public health, and to the environment. Although it is neither quick nor easy, it is possible to strengthen governments to curtail corporate power. Years long, even decades long, struggles in the past have yielded victory at reining in the tobacco industry, manufacturers of infant formula, and, in some countries anyway, gun manufacturers. I could describe my own work over the last several years in tobacco control and liveable cities as trying to lessen corporate power and increase the power of people. The work involves pushing politicians to make decisions that are good for public health and the environment, even if giant corporations express strong objections. It means promoting policies that help the poor, even if big companies would like to see something different happen. And, with a combination of hard work, long-term campaigns, smart strategizing, and the recruitment of allies, we have shown that success is possible.

A vibrant civil society

Reclaiming a strong and sensible role for government and ensuring that governments meet their commitments to the population overall (not just the wealthy) will not succeed without the genuine involvement of the public. Hugo Chávez, former President of Venezuela, stated that he believed not in representative but rather in participatory democracy.[38] This is not easy to achieve, but various ways do exist to increase the role of the public in decision-making and thus the ability of the general population to oversee the activities of otherwise unaccountable governments and corporations.

A genuinely free and balanced press would help; this is possible through the Internet. Activists need to continue making use of the Internet to communicate ideas. Activists also need to remind others of the ways in which mainstream media too often misleads people into supporting the status quo.[xvi] Representatives of unions, environmental groups, consumer groups, and so on must demand that they be

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[xvi] See the Mass Media Myth for more on this topic.

included in government committees in sufficient numbers to have some influence on what happens. It is easier to influence what happens locally than at the national level, and small successes grow into broader efforts and positive change.

The first step in convincing governments to pass needed policies is information. Activists must explain the importance of a policy. They may need to draft model legislation to show exactly what it should contain. (Big business already does this for government, and politicians under time pressures may accept what is given rather than draft their own version.) But information is usually not enough. A multi-pronged strategy will work better to pressure government to do the right thing. Research showing that the public supports the desired policy helps. Evidence of cost savings is also important. Media attention is vital. Several groups pushing the same policy will make a bigger impression than one group acting alone. Activists need to communicate directly with government officials, through letters and meetings. Finally, the passage of a policy is not the end of the process; work is needed to ensure proper implementation as well, using many of the same tools that proved successful for the policy's passage.

None of this is impossible or hopelessly utopian. Town meetings, participatory budgeting, and public input into government plans are occurring in different venues around the world. The sensation of powerlessness leads to apathy; when people see that they can have a positive influence, they are more likely to become involved in civic affairs. Of course not all public involvement will lead to improved results. Various selfish interest groups will speak loudly on behalf of their members, often to the detriment of the public good. However, vibrant communities – communities that get involved in how they are governed – can wield significant power; that power is needed to ensure that government, big or small, acts in the interests of its population, including low-paid workers and others in poverty. We need neither smaller nor bigger government, but government that acts in the service of the public and the environment.

Notes

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