

This issue snapshot is excerpted from [Unmasking the Future](#) (2021), a scan of major current socio-economic trends and developments, at local, provincial, national and international scales, authored by James Stauch of the Institute for Community Prosperity, commissioned by the Calgary Foundation.



THE BUSINESS OF GOVERNMENT?

Whatever We Want it to Be

The late former populist Alberta premier Ralph Klein was fond of saying “Government has no business being in business.” It’s a fun turn of phrase, but one that bears no connection to contemporary reality. As Calgary-based new economy thinker Jason Ribiero has pointed out, this kind of pervasive anti-government discourse in North America has contributed greatly to killing North American innovation and competitiveness.¹⁰⁴ The Athabaska oil sands, to take just one obvious example, had no commercial value until decades of federal and provincial R&D funding going back to the 1950s started to pay off in the 1990s. Ever since the “Great Recession” of 2008, governments in North America have become accustomed to propping up commercial investment,

with a combination of large public expenditures (and large, normalized year-after-year deficits), rock-bottom interest rates, debt monetization and “quantitative easing” – the purchasing of bonds and other assets in order to inject money into the economy. “Modern Monetary Theory” appears to be replacing classical economics, with fiscal hawkishness in short supply. Even former Federal Research Chair Alan Greenspan claims that the US has no real debt/deficit problem.

Into this economic context rode the new UCP government in 2019, schooled in the philosophy of fiscal austerity and leaving the market to its own devices, but forced to confront a slumping oil and gas economy and Alberta’s fiscal over-reliance on this one sector. The former NDP government put a hard cap at \$700 million in provincial funding of the Calgary Olympic bid, but two years later, the public taps have opened up on all manner of stimuli. Pipelines have become de-facto public utilities, though operated by commercial entities.¹⁰⁵ The UCP are not afraid to spend, but the ledger is tipped in favour of subsidies to private industry and to “shovel ready” projects. The government has contributed over \$10 billion to a business stimulus package, including the aforementioned grants and loan guarantees to TC Energy’s Keystone XL project, following in the footsteps of the federal government purchase of the Transmountain (TMX) pipeline from Kinder Morgan.



As we've seen in Alberta and across Canada, the range of tools governments have available to them are vast, from liquidity injections (increasing the money supply) to regulation changes, credit and loan guarantees, deferrals, value transfers and equity investments.¹⁰⁶ But no matter the instrument, they all cost money. The International Monetary Fund is calling for massive public spending for a green global recovery. According to the IMF, wealthy nations have already announced over \$4 trillion US in direct fiscal stimulus to alleviate the immediate impact of the pandemic, with more to come as countries plan for the recovery phase. Estimates run upwards of \$10-12 trillion for the real cost of the cumulative stimulus.¹⁰⁷ The centrepiece of the Canadian government's November 30 fiscal update is a \$70-100 billion post-pandemic stimulus commitment, a 'down payment' on 'transformative initiatives' to include major investments in child care, job training and climate change action.¹⁰⁸ Canada is far from the only country to make new public green investments. Joe Biden has put forward a \$2 trillion climate solution investment plan linked to clean energy and jobs, even as he has been careful to distance himself from the "Green New Deal" that emerged from the Democrat's left flank. The state is back in a big way, and the fundamentals of macro-economic theory are being revised yet again.

But is all this spending cause for alarm? As the Economic Forecast section of this scan reported, the federal and provincial governments have a safe near-term runway for spending. There is ample political cover right now as well – according to the Edelman Trust Barometer, the public's trust in government, particularly in Canada, was 20 percentage points higher in May than it was last October (from 4th place, behind NGOs, business and the media, to 1st place), although this appears to have been a temporary bubble of trust in many countries. At 70%, trust in government among Canadians is the highest among western democracies.¹⁰⁹

But is it fundamentally problematic that government is so deeply embedded in stimulus, industry bailouts, re-training, R&D funding and all manner of other investments? Is government starting to get just too big and powerful? In reality, the so-called "free market" has always required big government to set the rules, enforce, subsidize and clean-up corporate capitalism's many externalities, inequities and market failures. As Jim Balsillie noted recently, all economics begins with values, and economies, and even neoliberal economies are sanctioned and shaped by government, referencing the great Karl Polanyi's observation that "*laissez faire* was planned".¹¹⁰ As an analysis by McKinsey of the global

stimulus response concludes, "countries with coordinated-market economies (e.g. Germany, South Korea, and the Nordic nations) have leveraged strong balance sheets and existing measures to respond rapidly and at scale to protect businesses and jobs." Conversely, "countries with liberal-market economies (including Canada, Australia, the US and UK) face greater short-term risks" Their economies skew more heavily toward big corporations than do those with coordinated market economies, with a comparatively smaller role for SMEs, and flexible labor policies are dominant."¹¹¹

The devil may well be in the details. Ill-considered stimulus may inflate or unnaturally keep afloat sectors that no longer serve prosperity or that undermine public goals like decent work or climate change action. One important such detail is Canada's tax system, which the IMF has noted is not productivity-focused. We have managed to grow tax-evading cohorts (as revealed in the Panama Papers) and tax-avoiding commercial activity (think Netflix and Amazon), while comparatively failing to grow a strong tax-paying middle class. As well, attempts at aligning the tax code with green objectives have been met with fierce political opposition. And there are gaps in how effectively the tax code incentivizes capital investment, employment growth and R&D. Canada is one of only three OECD countries where business currently spends less on R&D than it did in 2007. This is one

"Our actions in the next decade will determine the future of civilization."

Indy Johar, Dark Matter Labs

"...there is not a single key technology behind the iPhone that has not been State-funded."

Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (2013)

area where Mazzucato focuses most of her attention, noting that virtually every significant technological breakthrough is the result of publicly-funded R&D. Government must not only invest in the new economy, but it must take risks in doing so. Does a given investment help to build a bridge to the future or does it result in a dead end? As Mazzucato notes, governments that subsidize old models and shy away from new ventures and new forms of risk-taking doom their jurisdictions to irrelevance.¹¹² Responding to this challenge, matching grants for investment in machinery, equipment and intellectual property development will likely be on the horizon, as may new direct investments in post-secondary research-industry partnerships, as well as research-community partners.¹¹³

But perhaps above all else, there is growing consensus that government has a vital role – indeed THE role – in wealth redistribution, in order to not only ensure as little poverty as possible (ideally eliminating it all together), but also to maintain social stability and social mobility that is otherwise eroded when extreme inequality is present. The Edelman Trust Barometer has tracked a far greater awareness of, and concern for, social inequalities among the public, with 60% of Canadians feeling strongly that something must be done to redistribute Canada's wealth and prosperity more fairly.¹¹⁴ This is even more strongly felt among the “mass population”, who feel disproportionately affected by the pandemic. A review of the academic literature on inequality in Canada conducted by the Institute for Research on Public Policy (IRPP) revealed “a growing body of research indicates there is a relationship – if perhaps indirect and complex – between income inequality and inequality of opportunity or of life chances, not only among members of society at a given point in time but also across generations.”¹¹⁵ It further concludes

that “from the perspective of the past three decades or more, inequality has increased substantially, particularly in terms of market income” and “the evidence suggests that in coming years battling inequality will require real leadership on the part of the federal government.” Roger Martin notes that Canada's income distribution has gradually warped over the last four decades from a healthy bell-shaped “Gaussian” curve, to a hockey stick-like “Pareto” curve, where those at the upper income levels have a disproportionate amount of wealth.¹¹⁶ Other economists, such as Thomas Piketty, have measured the change in different income fractiles' wealth growth since 1982, in real (inflation-adjusted) dollars. In their analysis, the top 0.01% of Canadian income earners (i.e. the 1% of the 1%) saw their incomes grow by nearly 160%, while the bottom 90% of income earners saw just a 2% increase over the same nearly 30-year period.¹¹⁷ Martin echoes the IRPP findings that “significant and frankly unprecedented government intervention will be necessary to maintain a decent middle class” (and hence, community-wide prosperity).¹¹⁸

In addition to income supports and income redistribution, R&D investment, and greening of the economy, major investments in universal child care, reform of long-term care, and likely a pharmacare program are in the offing. Additional investments in affordable housing and health care are also likely. Whether the government can actually grow the productive middle class while shrinking poverty and the moderating the wealth of the uber wealthy remains to be seen.