Is big government back? The political economy of activist government policy

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For most of the past twenty years there has been a trend toward smaller government, but now it appears that the trend has reversed. Such trends and their reversals appear to have more to do with society's perceived needs than with electoral politics. Although there might appear to be a political cycle that drives periods of greater and lesser government activism, it is more likely that a dominant trend toward relatively little government activism is periodically countered by periods of crisis. The dominant contemporary "crises" are the war on terrorism and the collapse of the stock market bubble. Also, although not a crisis, the aging of America is an emerging structural problem that poses challenges for expenditure and regulation. This paper describes these issues and their likely long-term implications.

Republicans are regarded as the party of small government, yet consider what happened after they triumphed in the 2002 elections:

* The main order of business in the lame duck session immediately following the election was passing the party's top priority, the creation of a new cabinet department, the first in over a decade.
* The first order of business in the New Year was an extension of unemployment benefits.
* One of the next priorities was funding the government for FY2003. The omnibus spending bill added $330 billion to the ten-year baseline.
* And one of the most important domestic priorities for the Republicans this year is to expand Medicare by adding a drag benefit, which would increase Medicare by about twelve percent.

My overall theme is that these are not isolated examples or aberrations in politics but represent a new phase for public policy. For the better part of the last twenty years, the prevailing approach to solving problems was to reduce the role of government. Now we are on a trend in which the predominant approach to solving problems will involve an expanded role for government.

Figure 1 shows the best measure of the government's economic role, federal spending as a share of GDP. This isn't a complete measure, since it omits new regulations and higher steel and lumber tariffs, for example, but it tells the story. Even the Bush Administration's own budget projections show no material decline in the government's share of the economy. Once the Iraqi war, occupation, and rebuilding costs are added, this line will continue to trend upwards.

The trend toward a bigger role for government means that government actions will take on a more central role in the economic and financial outlook for the United States.

A Long Political Cycle?

It seems odd to postulate about a return of activist government with an all-Republican government in place. But my argument has to do with the direction of policy, not partisan politics. The two can be linked to the extent this means one party or the other has the home field advantage in elections. I would argue that the Republicans were successful last year despite, not because of, their image as the party of smaller government.

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The political economy is when politicians like Trump or Boris Johnson selectively browse this myriad of data and then pick one that with a bit of spin makes them look like a safe pair of hands in charge at the wheel. I will now post two infographics about the UK economy. The blue is Conservative spin on the political economy. The second is from ONS and reflects what goes on in the real economy. This is the Political Economy. Below the real economy. Timothy Linnomme. Government policy has always had a significant influence on economic growth and new business formation. During the past two decades, policy uncertainty has grown in the United States as the polarization of the electorate has intensified. The stark political differences are increasingly on display by elected officials in Washington. The recent political brinksmanship surrounding the so-called "Fiscal Cliff" is one example of the costly policy uncertainty facing U.S. businesses that is now endemic in Washington. Political economy is a social science that studies production, trade, and their relationship with the law and the government. It is the study of how economic theories affect different socio-economic systems such as socialism. In an economy, socialism vs. capitalism represent opposing schools of thought, and their central arguments touch on the role of government in the economy and economic equality among the citizens and communism, along with the creation and implementation of public policy. In simple terms, political economy refers to the advice given by economists to the government on either general economic policies or on certain specific proposals created by politicians. Components of Political Economy. The question of government interference in economic activities has been debated for a very long time by the economists. While the early economists considered economics as a handmaid of politics, the modern view is that politics is the handmaid of economics. With the growing importance of the role of government in economic welfare, the modern economists firmly believe that the sphere of government in economic development has no boundary. However, there is no unanimity among the economists about the extent and mode of government intervention in the economic sphere. Hence, we can identify the following Macroeconomic Policy and Government Popularity in Norway 1963?1986. Scandinavian Political Studies, Vol. 10, Issue. 4, p. 301. Hahm, S D 1996. The Political Economy of Deficit Spending: A Cross Comparison of Industrialized Democracies, 1955–90. Environment and Planning C: Government and Policy, Vol. 14, Issue. 2, p. 227.