HOW MUCH SHOULD GOVERNMENT INTERVENE IN THE ECONOMY?

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In economic systems, two mighty forces work in opposition: markets and governments.

Someone once asked me what form of government I thought best. After a few moments I suggested, “As little government as possible; as much government as necessary.” My answer for what form of economy is best is similar: as little government intervention as possible; as much intervention as necessary. Intervention is necessary to address the imbalances that free markets create.

Imagine a spectrum with government intervention at the left and free markets at the right, with a slider on the spectrum. Pushing the slider to the left increases intervention and decreases free markets; pushing the slider to the right increases free markets and decreases intervention.

People decide differently where best to stop the slider. Common stopping points are:

communism market-based market-based neoconservatism libertarianism

socialism: socialism: (à la Martin

Chinese model Scandinavian model Friedman)

I have said that the purpose of government interventions in free markets is “to address the imbalances that free markets create.” The single greatest imbalance that free markets create is wealth inequality.[[1]](#footnote-1)

After several centuries of capitalism:

The rich (top 1%) own 54% of everything.[[2]](#footnote-2)

The poor (bottom 50%) own 1% of everything.[[3]](#footnote-3)

Excuse me, but that is obscene.[[4]](#footnote-4)

The obvious way to correct wealth inequality is to redistribute wealth from capitalists to workers. There are various ways to do that: increase wages, increase taxes on the wealthy, etc.

Policies that redistribute wealth should not disincentivize capitalists overmuch. But taxes on wealth can be much higher than they are at present without having that effect. When Eisenhower took office in 1963, the top income-tax rate was 92%.[[5]](#footnote-5) Today the top rate is 37% (for single filers with taxable income above $539,900 and for couples filing jointly above $693,750). Research in the last decade has suggested that an effective rate of 70% does not disincentivize capitalists.[[6]](#footnote-6)

Redistribution need not be cash grants that create couch potatoes. It can be in the form of programs which have outsized benefits: early childhood education, child care, school lunch programs, infrastructure renewal (both physical and social), etc.

My personal preference, then, for the optimal stopping point on the spectrum is “market-based socialism—Scandinavian model.”

In the real world, of course, the wealthy generally don’t want their wealth taken. Since wealth has outsized influence in politics, the wealthy tend to get their way. That is why political systems inevitably veer toward plutocracy (rule by the wealthy) or kleptocracy (rule by thieves, as in Russia).

But the real danger to the wealthy is if plutocracy goes too far. If the façade falls, and the poor see what is happening—then revolution occurs, and redistribution is by force, outside the law.[[7]](#footnote-7)

1. A great contributor to wealth inequality is r > g (returns greater than growth). This famous equation from Thomas Piketty’s *Capital in the Twenty-First Century* (French original: 2013) says that returns on investments (which largely affects the rich) are greater than growth of the economy (which largely determines wages to the poor). Annual returns on US stocks from 1926-2020 averaged 10%; annual growth of the US economy averaged 3%. [↑](#footnote-ref-1)
2. “. . . the wealthiest 1% [will] own more than [54%] of the world’s wealth . . . by 2020.” (“Richest 1% to Own More Than Rest of World, Oxfam Says.” *BBC*.*com*. 19 Jan. 2015. 23 Mar. 2015. Web.) [↑](#footnote-ref-2)
3. The “world’s poorest 50% control barely 1% of its wealth . . .” (Gibbs, Nancy. “The Choice.” *Time* [23 Dec. 2013] 45. 23 Mar. 2015. Web.)

   In pre-World War I Europe (the Gilded Age), the wealth of the top 1% was around 50%-60% of all wealth; the New Deal brought it down to 20%-30%; now it is back up to around 54%. (Piketty, Thomas. “About Capital in the Twenty-First Century.” *American Economic Review*: *Papers and Proceedings* 105.5 [2015] 48-53. Here 50-51.) [↑](#footnote-ref-3)
4. On 27 Jan. 2022, Elon Musk lost $24.5 billion in one day. On 3 Feb. 2022, Mark Zuckerberg lost $29.8 billion in one day. Seriously: how much does one need? [↑](#footnote-ref-4)
5. 92% was the *statutory* (on-the-books) top tax rate. But exemptions, deductions, and legal income shelters made the *effective* top tax rate lower: “Persons in the $1 million [$8.2 million today] income filing bracket in 1963 faced an average effective tax rate of just over 40 percent . . .” (Magness, Phillip W. “The Rich Never Actually Paid 70 Percent.” *AIER*.*org* [American Institute for Economic Research]. 7 Jan. 2019. 8 Feb. 2022. Web.) But note that the AIER is a conservative think tank: it advocates for the benefits of sweatshops, argues that “Brazilians Should Keep Slashing Their Rainforest,” and during the pandemic bought Facebook adds against social distancing. [↑](#footnote-ref-5)
6. Saez, Emmanuel, and Thomas Piketty. “Why the 1% Should Pay Tax at 80%.” *TheGuardian*.*com*. 24 Oct. 2013. 29 Oct. 2013. Web. [↑](#footnote-ref-6)
7. Whether revolution will be possible once a Chinese-style surveillance state is fully in place remains to be seen. [↑](#footnote-ref-7)