

## Government should be more like Business?

Dr. Harry Hillman Chartrand, PhD  
Cultural Economist & Publisher  
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It is often said that Government should be more like Business. Behind its superficiality, however, lays a counterintuitive truth revealing that Deficits & Debt are, up to a point, not a problem for a Sovereign Government. Strangely much of this truth flows from two Generally Accepted Accounting Principles (GAAP).

First, every incorporated Business has a balance sheet showing Assets & Liabilities. In fact senior levels of Government (federal/state/provincial) do not publish a true statement of Assets, only of Liabilities. The present value of capital assets like buildings, harbours, intellectual property, parks and public land is not displayed. Excepting contingent liabilities, however, all financial liabilities are. Under such accounting Liabilities will always exceed Assets equaling Debt. A Business will indeed incur short run losses assuming its net worth (Assets minus Liabilities) is positive. In fact the largest single Asset reported by major corporations is 'good will', that is returning consumers defining a 'going concern'. What is the asset value of the good will of the citizenry? It too is not reported, unlike Business.

Second, every incorporated Business breaks out its Statement of Expenditure into distinct capital and operating accounts. The capital account concerns long-term productive assets like capital plant & equipment. Rather than costing them entirely to the year in which they are purchased they are depreciated over their productive lifespan. Thus a piece of equipment with a projected five year lifespan, using straight line depreciation, is costed out, for tax purposes, at  $1/5^{\text{th}}$  of its initial cost over five years in the operating account until its book value is zero.

No senior Government separates expenditures into capital and operating accounts. Thus the full cost of a new bridge, road or other facility is reported in the year of purchase or construction. Without separation of capital and operating accounts Government increasingly relies on P3s, *i.e.*, public/private partnerships, *e.g.*, the proposed infrastructure banks in Canada and the United States. In effect Government rents the facility paying what in Business would be annual depreciation in its operating account.

If Government kept separate capital and operating accounts consider the case of human capital. It takes some twelve years to produce a high school graduate who for the next forty or fifty years is a taxpayer. If the cost of education were depreciated over those forty or fifty years, the annual operating cost would be  $1/40^{\text{th}}$

or 1/50<sup>th</sup> of the initial investment. In fact, if Government were to account like Business much, if not all, deficits would simply disappear.

Third, the myth that a Sovereign Government is like a household or a business and must, at all cost, balance its budget simply does not reflect reality. What household or business can print money? Quantitative easing anyone? What household or firm can determine the terms and conditions under which unexploited natural resources can be developed? The Canadian Shield anyone? What household or firm exercises a monopoly of coercive power? Policing and taxing power anyone?

In conclusion, if Government were more like Business with respect to accounting then current Deficits would disappear and Debt would become investments in long-run productive assets. Together with its policing and taxing powers as well as the good will of the citizenry, Government should be seen as a profitable going concern, not a drain on the economy.