Stock Market Investment by the Government

Because the rate of return on stocks has historically been high, some advocate that the government should invest in the stock market.

Private Investment Versus Government Investment

Some say that this action makes no sense: why should the government borrow or tax more from the private sector to invest in the stock market?

Why not let the private sector invest directly? Each investor would make his own decisions, for his own benefit.

Higher Saving and Investment?

A possible motive is to increase aggregate saving and investment. Many people have no savings, so the government saves and invests on their behalf, to provide them with a retirement pension.

However higher government saving might be offset by lower private saving, so aggregate saving and investment would be unaffected.

Privatization of Social Security

Alternatively, the government could force people to save for themselves, via the privatization of social security.

According to the economic theory of the efficient allocation of resources, there is no reason to force people to save. Too much saving is inefficient.

Socialism

By definition, *socialism* refers to the government ownership of business. Is the proposal to create a socialist economy? Potentially the government might eventually own a high fraction of the economy.

Do not confuse "socialism" and "welfare state." One can see the United States today as a welfare state, and yet there is almost no government ownership of business (the exception is the post office).

Gain from Socialism?

What is the potential gain to the “people” from government ownership of business?

Consider the national income equals national product identity. If the government ownership leaves national product unchanged, then it can help the people only by shifting national income away from wealthy investors to the government and then to the people. How might this happen, apart from expropriation?

Financing Social Security

If the government investment were intended to finance social security, perhaps the government would never sell its stock; and the flow of dividends to the government would finance the retirement pensions.

Stock Crash

If the government never sells its stock, then it is irrelevant whether stock prices are stable or fluctuating. A stock crash would make no difference. What would count is the stability of profits and dividends.

Money Management

Many envision the investment to be carried out by firms in the private sector, hired by the government to manage the stock portfolio.

Proponents of government investment in the stock market point to the success of government pension funds for government employees, which typically are managed in an objective, professional way. However each fund owns only a small fraction of the financial assets in the economy.

Scale

Massive investment by the government in the stock market would constitute a fundamental change.

The government would own a large fraction of many companies. Typically a significant minority ownership in a company is sufficient to control its decisions and operations. What decisions would be made?

Favoritism

Somehow decisions would be made about how to invest, and favoritism would be inevitable. Anything goes, so the nature of the economy might change.

- Would investment be restricted only to large firms? Might a teenager receive government funding to set up a lawn-mowing service?

- Which firms or industries would be favored for investment?

- How would the government identify a rising industry or firm worthy of funding? Would a firm in a declining industry receive funding?

- When would the government sell stock in a firm?

- Would the government manipulate stock prices? If a stock price starts to fall, would the government start buying to keep the price up? Would the government act to stop a stock price bubble, by selling stock?
- Which regions would be favored for investment? Urban, suburban, or rural? Coastal or inland? North, South, East, or West?
- Which individuals would be favored for investment?

- Would the government be strictly profit-oriented, to maximize its share value? Or would it use its stock voting power to redirect the firm, to favor either the employees or the customers? In a government-owned firm, would wages be higher? Would the prices to customers be higher or lower? Would some customers be charged more than others?
- Would the government influence what goods are produced? For example, in the pharmaceutical industry, it might redirect the research effort in a new way.
- Would the government pass legislation to favor firms in which it invests?

- Would the government buy supplies (paper or computers or cars or airplanes) from a firm that it owns? Would it overpay?
- Would government-owned firms operate a loss and receive a government subsidy?
- Who would be authorized to manage the government portfolio? How would the management fee be set?
- Who would know in advance how the government planned to invest, and would exploit the situation for personal gain?

- Would the government invest in an American firm manufacturing overseas? Would it invest in a foreign firm manufacturing here? Would it invest in a foreign firm manufacturing overseas?
- Would the government invest in exotic ways, such as in a sports stadium or a golf course or a bowling alley or a theater? Might it invest in a rock band or a classical orchestra? Might it invest in acupuncture? Might it become a stockholder in a private school or university? Might it invest in a sky-diving school?