THE NEW VISION FOR CONSERVATIVES – RIGHT-SIZED GOVERNMENT

By Lewis K. Uhler, President
National Tax Limitation Committee

www.limittaxes.org

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151 N. Sunrise Avenue, Suite 901 Roseville, California 95661 916-786-9400 Facsimile: 916-786-8163

SECTION 1:

RIGHT SIZE GOVERNMENT MAXIMIZES

ECONOMIC GROWTH AND NATIONAL WELL-BEING

My reading of history convinces me that most bad government results from too much government.
Thomas Jefferson

Republicans, who have long argued for controlling the size of government but have nonetheless allowed it to expand enormously in recent years, can now stake out the high ground in pursuit of the limited government goal.

Their map to that high ground lies in a body of research on the optimal, or "right," size of government. *The research creates an objective standard and moral imperative for limiting government. It posits that excessive government stunts national economic growth and impoverishes the people.*

GOVERNMENT TOO BIG

The late economist Gerald Scully, who studied the "optimal" size of government for years, has shown that at approximately 35 percent of GDP (the 2008 number, which has since grown to nearly 40 percent), governments at all levels in the United States are far beyond the 20 percent or so of GDP he has identified as optimal. Here are the key elements of Scully's analysis:

- Beyond the optimal level of spending, government becomes a net drain on the economy. Up to that level, every dollar spent by government provides more than a dollar's worth of economic growth. Beyond the optimal level, every additional dollar in spending costs more than a dollar in economic growth. At today's spending level, the next dollar in taxation costs the Nation at least $2.75 in lost economic growth.
- Total spending by federal, state and local governments in the United States in 1948 was about 23 percent of GDP, but it had grown to 35 percent by 2008. During that time the average annual compound growth rate of the economy was 3.5 percent. If governments had not increased their shares of GDP, the annual growth rate of GDP would have been 5.8 percent per year. Scully calculated that this would have resulted in $37 trillion more real GDP By 2004. *The average American family would be three times wealthier today as a result.*
- Low income – or other – Americans would not have needed to "sacrifice" government largesse to achieve this result. At a 23 percent of GDP spending level, with comparable tax rates,

government at all levels would have collected over $60 trillion more in taxes, enough to have funded all spending programs without public debt.

- Going forward, if spending were reduced to 20 percent of GDP and tax rates systematically reduced to maximize growth, by 2030 real GDP would be double what we anticipate under current spending/taxing plans.

Other economists have urged even lower total government shares. After all, total government spending as late as the 1920s represented only 10 percent of the Nation's income: seven percent for state and local governments, about three percent for Washington. Allocation of spending authority as between levels of government in today's world has changed. Of the total, probably two-thirds would be national, with one-third state/local. But as Milton Friedman was fond of saying, if 10 percent was the right church tithe, why should government be entitled to a greater share?

OTHER STUDIES CONFIRM GOVERNMENT SPENDING IMPACT

Further confirming the Scully analysis, a Federal Reserve Bank of Cleveland study reviewed total government spending from 1946 to 1989 and found it had risen from 13.7 percent of GDP to over 22 percent. This led to a decline in the Nation's economic output of over two percent on a permanent basis.

Economist and Cato scholar Dan Mitchell performed a worldwide survey of studies on "The Impact of Government Spending on Economic Growth" in 2005. Consistently he confirmed that as governments increase in size, a Nation's rate of economic growth is substantially adversely affected. He recommended reducing government's size to 10 percent of GDP to maximize economic output.

MODERN WEALTH OF NATIONS

A seminal work on the economic-growth-maximizing size of government, as a share of GDP – "The Scope of Government and the Wealth of Nations" – compared nations worldwide and nations with themselves at different times in their histories. The authors – economists James Gwartney, Randall Holcombe and Robert Lawson – determined that *there is "a strong and persistent negative relationship between government expenditures and growth of GDP* … (but) where nations reduced their government expenditures by an appreciable amount, this reduction in size of government was

correlated with an increase in the growth rate of real GDP. [“The Scope of Government and the Wealth of Nations,” by James Gwartney, Randall Holcombe and Robert Lawson, Cato Journal Vol. 18, No. 2 (Fall 198),pp. 186-187]

The authors concluded, “What level of government expenditures would maximize economic growth? *The data analyzed here can only present an upper bound because there is no evidence that any country in the data sets examined in this paper had a level of government expenditures insufficient to maximize growth.* Some nations had government expenditures between 15 and 20 percent of GDP; those countries had higher rates of growth than nations with government expenditures in the range of 20 to 25 percent of GDP. There is no evidence that any of the nations examined here had governments so small that they inhibited growth.

“These findings are highly consistent with the level of government spending on core functions – those activities that economic theory indicates are most likely to promote efficiency and enhance growth. These functions were defined generously and expenditures tabulated in a manner likely to err on the high side (see Table 1). Even with this generous conceptualization of core functions, current government expenditures in the United States and other industrial nations indicate that these functions can be provided with less than 15 percent of GDP.

“There is no evidence that governments spending between 15 percent and 20 percent are too small to maximize economic growth. On the other hand, it is clear that the core functions of government can be provided with less than 15 percent of GDP. Taken together, *these two findings indicate that the growth-maximizing level of government expenditures is no more than 15 percent of GDP (* emphasis added.)

The authors’ reasons for declaring that smaller government is better for a nation’s economic growth is that as government grows:

1. Higher taxes and/or additional borrowing put an excess burden on the economy;

2. Productivity declines;

3. The political process inhibits entrepreneurship which is the discovery process vital to wealth creation;

4. Government growth leads to redistribution of income and to increased regulation which encourages “rent-seeking,” i.e., wealth transfer via lobbying and political special interest, instead of wealth creation. Three charts

are especially revealing on the relationship between government size and the growth rate of the Nation's economy:

- Nations with the smallest increase in government out-performed those with the largest increases (Table 2).
- Three nations – Ireland, New Zealand and the United Kingdom – actually shrunk the sizes of their governments at some point. Their economic growth rates during government shrinkage vs. government expansion are totally consistent with the authors' size-of-government analysis. (Table 3).
- Figure 1shows the startling contrast in national economic growth rates as between nations whose government spending was *less* than 25 percent of GDP (6.6 percent growth) and those with spending *above* 50 percent of GDP (two percent or less in growth). When you consider the compounding effect of such contrasting growth rates over, say, a 10-year period (66 percent national economic growth vs. less than 20 percent cumulative growth), you more fully appreciate the disastrous impact on the people of a nation whose government is too large.

TABLE 1

US FEDERAL STATE AND LOCAL GOVERNMENT
EXPENDITURE FOR SELECT BUDGET CATEGORIES AS A
PERCENTAGE OF GDP, 1960-92

Budget Categories	1960	1970	1980	1990	1992
Protection of Persons and Property					
Police Protection	0.39	0.49	0.54	0.55	0.66
Corrections	0.14	0.16	0.24	0.43	0.50
Judicial	0.11	0.11	0.13	0.16	
Other Criminal Justice System Activities	na	0.06	0.11	0.14	0.34
Subtotal	0.64	0.82	1.02	1.28	1.50
National Security					
National Defense	8.72	7.75	4.81	5.21	4.78
National Affairs	0.58	.034	0.46	0.24	0.26
Subtotal	9.30	8.09	5.27	5.45	5.04
Education					
Elementary and Secondary	2.88	3.62	3.34	3.52	3.67
Higher	0.61	1.06	1.22	1.28	1.35
Other Education	0.20	0.70	0.61	0.52	0.65
Subtotal	3.69	5.38	5.17	5.32	5.67
Highways	1.82	1.61	1.21	1.08	1.08
Sewerage, Sanitation and Environmental Protection	0.53	0.60	0.97	0.80	0.85
Federal Reserve System: Expenses		0.03	0.03	0.02	0.02
TOTAL	15.98	16.53	13.67	13.95	14.16

[yellow] Legal representation and other related activities were not counted toward criminal justice system expenditures prior to 1969.

[gray] These percentages were calculated from 1979 expenditures and GDP because detailed data were not collected in 1980.

[magenta] Judicial, legal and other activities were combined into a single category in the 1992 data.

SOURCES: Bureau of the Census, *Statistical Abstract of the United States* (various issues); *Board of Governors of Federal Reserve System*: *1996 Annual Report*; and *Economic Report of the President* (February 1997)

TABLE 2

THE GROWTH OF REAL GDP IN THE 1990S COMPARED TO 1960-65, ACCORDING TO INCREASES IN THE SIZE OF GOVERNMENT BETWEEN 1960 AND 1996: OECD COUNTRIES

	Gov't Spending as a Percentage of GDP			Growth Rate of Real GDP		
	1960	1996	change	60-65	90-96	change
Countries with Smallest Increases in Size of Gov't						
United States	28.4	34.6	6.2	4.4	2.2	-2.2
Iceland	28.2	37.3	9.1	4.5	1.5	-3.0
Ireland	28.0	37.7	9.7	4.1	5.9	1.8
United Kingdom	32.2	43.7	11.5	3.5	1.2	-2.3
New Zealand	27.7	42.3	14.6	5.0	2.5	-2.5
Average	**28.9**	**39.1**	**10.2**	**4.3**	**2.7**	**-1.6**
Countries with Largest Increases in Size of Gov't						
Portugal	17.0	46.0	29.0	6.5	1.7	-4.8
Spain	13.7	45.9	31.7	8.5	1.8	-6.7
Greece	17.4	49.4	32.0	7.2	1.2	-6.0
Finland	26.6	59.4	32.8	5.6	0.0	-5.6
Sweden	31.0	66.1	35.1	4.9	0.6	-4.3
Denmark	24.8	60.8	36.0	5.9	2.0	-3.9
Average	**21.8**	**54.5**	**32.7**	**6.4**	**1.2**	**-5.2**
All OECD Countries **Average**	**21.0**	**48.0**	**27.0**	**5.5**	**1.9**	**-3.6**

Sources: Derived from OECD Historical Statistics and OECD Outlook

TABLE 3

COMPARING PERIODS OF EXPANSION IN THE SIZE OF GOVERNMENT WITH PERIODS OF SHRINKAGE: IRELAND, NEW ZEALAND AND THE UNITED KINGDOM

Country and Time Period	Government Outlays as a Percentage of GDP: Beginning of Period	End of Period	Change	Growth Rate of Real GDP during Period
Ireland				
Periods of Expanding Government				
1960 – 77	28.0	43.7	15.7	4.3
1977 – 86	43.7	52.3	08.6	3.4
Period of Shrinking Government				
1987 – 96	52.3	37.7	-14.6	5.4
New Zealand				
Period of Expanding Government				
1974 – 92	34.1	48.4	14.3	1.2
Period of Shrinking Government				
1993 – 96	48.4	42.3	-6.1	3.9
United Kingdom				
Period of Expanding Government				
1960 – 82	32.2	47.2	15.0	2.2
Period of Shrinking Government				
1983 – 89	47.2	40.7	-6.5	3.7

Sources: Derived from OECD Economic Outlook and Historical Statistics

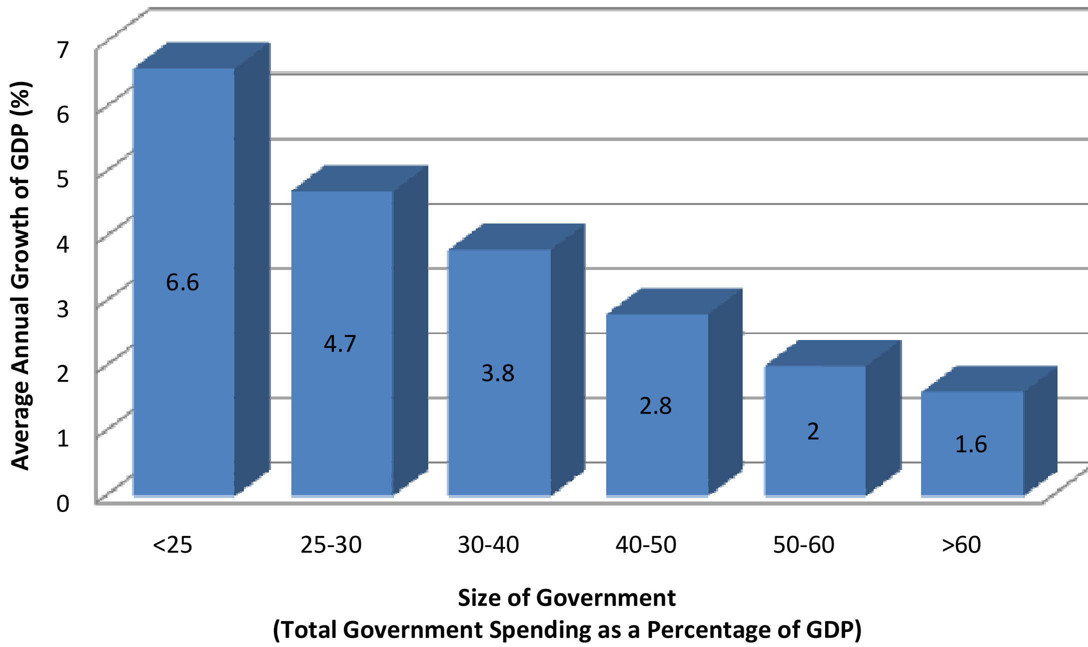


Figure 1
Size of Government and the Annual Growth of Real GDP for OECD Countries, 1960-1996
Average Annual Growth of GDP (%)
0
1
2
3
4
5
6
7
6.6
4.7
3.8
2.8
2
1.6
<25
25-30
30-40
40-50
50-60
>60
Size of Government
(Total Government Spending as a Percentage of GDP)

NOT ALL GOVERNMENT SPENDING IS THE SAME

We know from our analysis of the "core functions" of government the reality that a certain amount of government is necessary to facilitate personal freedom, protection of property and advancement of economic growth in a nation. From a strictly economic analysis point of view, this can be considered a positive return on investment (ROI) for the taxpayer. In fact, all government (collective, taxpayer) expenditures should be analyzed from a ROI viewpoint. That is how we decide where to spend the money which we "agree" upon as proper federal functions.

The '96 welfare reform program is an ideal model from which to consider ROI. We were spending unnecessary billions on classical, liberal welfare before we went to workfare. After welfare reform that emphasized job training and securing a job, classical welfare support was reduced significantly and welfare recipients went to work. We could calculate societal gains in many ways that demonstrated a very positive ROI from government spending:

- Welfare rolls and cost declined;
- Private-sector jobs and wealth creation increased as former welfare recipients found productive employment;
- To the extent that productivity increases were enjoyed by these workers, greater wealth was also created.

Space and defense research and analysis should be done – and is being done – by private companies and concerns, as well as by government. But, at least, government expenditures in these areas have an identifiable ROI in terms of defense of the Nation and services and products that grow out of these efforts for national taxpayer benefit. Earmarked money for a local museum may benefit that community, but it has no ROI for taxpayers generally throughout the Nation. It is private "goods," not public goods, i.e., benefiting all taxpayers.

Therefore, both the size of government, and the nature of government expenditures, will determine the economic growth of the Nation that we can achieve. (Figure 2)

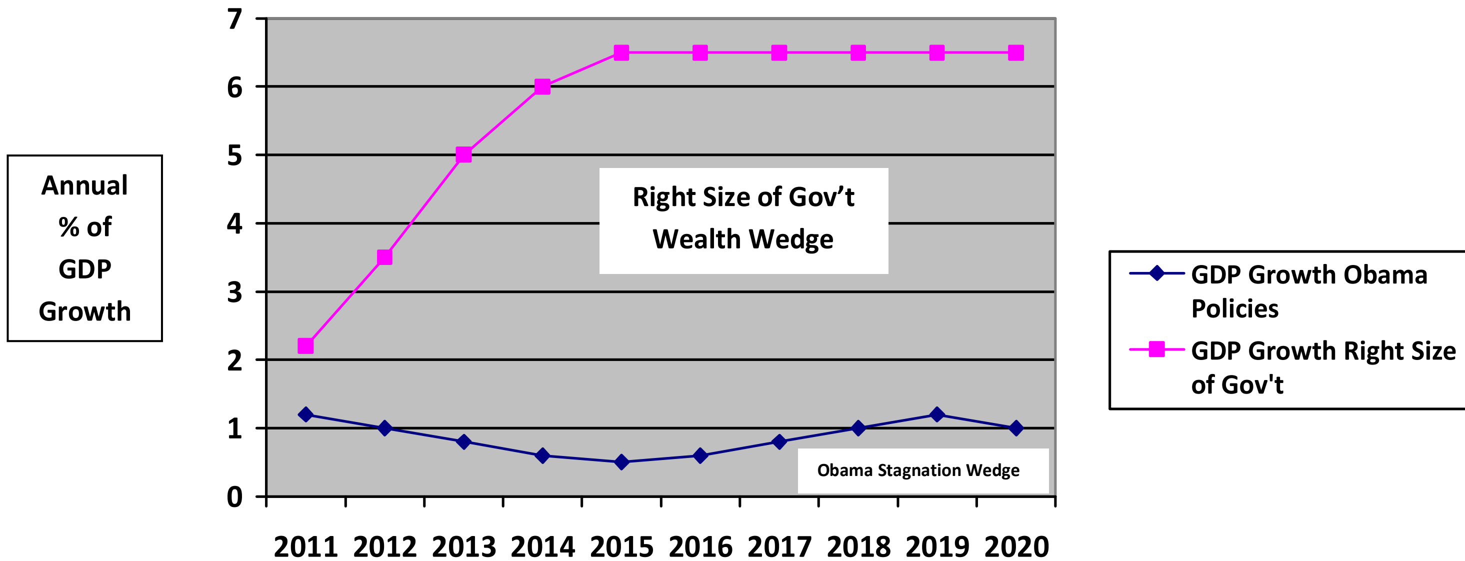
OBAMA STAGNATION OR THE "WEALTH WEDGE"

Only rapid economic growth can help us outrun the annual deficits and mounting debt that are in our future under Obama fiscal policies. Stagnation occurs at low levels of annual GDP growth. Higher levels of GDP growth can create a "wealth wedge" and rapidly compound the size of the US economy, giving us the resources with which create a bright future for our children and grandchildren (Figure 3 – the growth percentages are at best guesstimates but offer perspective on the results of rapid vs. stagnant growth).

MOVING TO THE NEW VISION

It was the failure to limit government growth in the last half of the 20th Century that has stunted our Nation's economic growth. When we moved from financing real infrastructure and improving human capital to transfer payments and politically-driven subsidies, we entered the era of diminishing returns from government expenditures. *"Optimal size of government" is the new vision which gives us a purpose-driven target in our efforts to limit government and provides an objective basis for demanding reductions in government spending.*

The specific way Republicans can show they are serious about spending control – and are entitled to continue to lead Congress and the Nation – is to develop an agenda of concepts and controls they propose to implement, to move spending toward the optimal level. If congressional Republicans championed institutional and structural reforms to reduce federal spending to an optimal level, they would be seen as offering not just a rehash of pledges but a *new approach to governing.* But they need to get on with it NOW.



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Obama Stagnation Wedge:											
Annual % of GDP Growth		1.2	1.0	0.8	0.6	0.5	0.6	0.8	1.0	1.2	1.0
Annual GDP ***(in Trillions)***	14.6	14.8	14.9	15.0	15.1	15.2	15.3	15.4	15.5	15.7	15.9
Accumulated GDP ***(in Trillions)***		29.4	44.3	59.3	74.5	89.7	105.0	120.4	136.0	151.7	167.7
Right Size of Gov't Wealth Wedge:											
Annual % of GDP Growth		2.2	3.5	5.0	5.5	6.0	6.5	6.5	6.5	6.5	6.5
Annual GDP***(in Trillions)***	14.6	14.9	15.4	16.2	17.1	18.1	19.3	20.6	22.0	23.3	24.9
Accumulated GDP***(in Trillions)***		30.0	45.0	61.1	78.2	96.4	115.7	136.3	158.2	181.5	206.4

SECTION 2:

RIGHT-SIZE GOVERNMENT CAN BE ACHIEVED

BECAUSE GOVERNMENT GROWTH CAN BE REVERSED,

TAX RATES LOWERED AND DEBT REDUCED?

There are many conservatives, tea partiers and small-government devotees who are fearful of the future and – skeptical, sometimes terminally – that there is any way we can reverse the trend to higher taxes and greater spending and deficits, or to bring down the size and power of governments in the United States. That concern is fully understandable – and even very rational – given what we have observed over the last few years at all levels, despite examples of successful Reagan-era restraint on government.

But, fortunately, we have numerous examples worldwide of governments that have actually gotten smaller, have reduced their tax rates and have reduced their national debts relative to the size of their economies (GDP) at one point or another. Let's take a look.

NATIONS THAT HAVE REDUCED TAX RATES

Over the last 16 years, 25 nations have moved from progressive personal income tax structures to flat rate taxes. Many of them have seen tax revenues actually increase because fewer people dodge the tax collector and there is a contraction of the underground economy. And, of course, compliance costs for the individual taxpayers are significantly reduced.

The flat rates have enduring benefits:

- They are simple and fair
- They promote economic growth
- They promote tax competition
- They are neutral to inflation

As our friend, and leader of the World Taxpayers Association, Björn Tarras-Wahlberg reports, in 1993 just one country in the world – Hong Kong – had a flat income tax. Now there are 25, thanks to Björn's work and that of world-class free-market economists like Richard Rahn, Richard Vedder and others who have counseled many governments. (Unfortunately, the United States continues its job-and-consumer-killing corporate tax rate of 35 percent, second-highest in the world.

When you add state corporate tax rates to the federal rate, many total over 40 percent. Is it any wonder the United States is increasingly non-competitive?)

Here is the list of flat-rate income tax nations and their current rates (many hope to zero these out soon and go to consumption-based tax systems to be able to shut down their invasive tax collectors):

Flat proportional income taxes 2010 --

From 1 to 25 countries in 16 years

Country	Rate
Kyrgystan (since 2006)	10%
Kazakhstan (2007)	10%
Macedonia (2007)	10%
Mongolia (2007)	10%
Albania (2008)	10%
Bulgaria (2008)	10%
Nepal (2008)	10%
Serbia (2008)	10%
Georgia (2005)	12%
Macau	12%
Balarus (2009)	12%
Russia (2001)	13%
Hong Kong (1947)	15%
Ukraine (2004)	15%
Iraq (2004)	15%
Montenegro (2007)	15%
Mauritius (2007)	15%
Czech Republic (2008)	15%
Romania (2005)	16%
Slovakia (2004)	19%

Estonia (1994)	19%
Jersey and Guernsey (1940)	20%
Lithuania (1994)	24%
Jamaica (1984)	25%
Trinidad & Tobago	25%

Ireland is not on this list, but it has a flat-rate corporate income tax of 12 percent, far below that of the United States and Ireland's counterparts among the European Nations. As a result, Ireland's economy exploded. It attracted a unique dimension of worldwide corporate assets: intellectual property. Silicon Valley and high-tech firms, which license their products and software worldwide, transferred these assets to companies they created in Ireland to benefit from the low corporate tax rate. Had the United States been smart enough to eliminate its corporate income tax, or reduce it dramatically to compete with Ireland, this intellectual property migration might never have occurred.

NATIONS THAT HAVE REDUCED THEIR NATIONAL DEBT

Enough nations worldwide have found themselves in the situation the United States confronts today in terms of accumulated national debt that we have a rich history from which to draw. Many nations have had to tighten their belts to do this.

When they have done so they have become success stories (at least in the area of debt reduction). Following is a chart prepared by the Peterson-Pew Commission on Budget Reform in its publication, "Red Ink Rising: A Call to Action to Stem the Mounting Federal Debt" (p. 17):

Debt Reduction in Advanced Economies (percentage of GDP)

Country and Period	***Starting Debt Ratio***	***Ending Debt Ratio***	***Debt Reduction***
Ireland (1987-2002)	109	32	77
Denmark (1991-2008)	80	22	58
Belgium (1993-2007)	137	84	53
New Zealand (1986-2001)	72	30	42
Canada (1996-2008)	102	63	39
Sweden (1996-2008)	73	38	35

Iceland (1995-2005)	59	25	34
Netherlands (1993-2007)	79	46	33
Spain (1996-2007)	67	36	31
Norway 1979-1984)	57	35	21
Average	***84***	***41***	***42***

So we know that with commitment and leadership we can bring down the national debt. Of course, there has to be commitment and understanding of its importance. That's where Obama and company seem to be totally deficient.

NATIONS THAT HAVE ACTUALLY REDUCED THE SIZE OF THEIR GOVERNMENTS AS A SHARE OF GDP,

AND OTHERWISE IMPROVED THEIR FISCAL STABILITY

Recently, the Mercatus Institute completed a study of 26 nations to determine which ones have been successful in curbing fiscal excesses and have turned the corner in reducing government. The evaluation techniques looked at total government debt as a percentage of GDP, balanced-budget commitments, fiscal stability rules, accounting and transparency methods, budget targets and spending limits and, especially, accrual accounting methods, forcing policymakers to look at unfunded future liabilities.

For this analysis, Mercatus declared that several nations were a "success" by their evaluation: the Netherlands, Ireland, Finland, Canada, South Korea, Australia, Switzerland, Hong Kong and New Zealand. Omitted was the United States, which fell in the "not quite" category.

It is instructive to look more closely at several of the nations that are at the top of the list and see how they managed to downsize government … what policies they actually adopted to reverse their respective falls into the "large government" abyss:

- Canada – In 1994 Canada was put on a "credit watch" when its combined federal and provincial debt exceeded 100 percent of GDP. To lower its debt ratio, Canada froze the pay of its public employees, eliminated 15 percent of the federal workforce and reduced "corporate welfare" (subsidies to business and agriculture).

- New Zealand – A classic case of reform. In the '80s its annual deficits exceeded six percent of GDP. It had virtually zero economic growth. The reforms it adopted included: removal of wage and price controls; public employee numbers cut well over half; cutting government spending dramatically (by more than seven percent of GDP) with the aid of privatization.

A vignette on government spending control success in New Zealand was revealed by former government minister and now a Mercatus scholar, Maurice McTigue: "When we started this process (cutting government) with the Department of Transportation, it had 56,000 employees. When we finished, it had 53. When we started with the forest service, it had 17,000 employees. When we finished it had 17. When we applied it to the Ministry of Works, it had 28,000 employees. I used to be Minister of Works and ended up being the only employee … We achieved an overall reduction of 66 percent in the size of government, measured by the number of employees." [Maurice McTigue, "Rolling Back Government: Lessons from New Zealand, Imprimis, 2004 at www.hillsdale.edu/newimprimis/2004april/default.htm]

- Ireland – Major tax rate reductions; public employee reduction.
- New Zealand and Ireland – Compared with OECD nations, Ireland and New Zealand dramatically reduced the burden of government, as the chart below indicates.
- Slovakia – Slovakia is a significant and recent success story, having constrained government spending from 65 percent to 43 percent of GDP in seven years (see chart) and adopted a 19 percent flat tax rate.
- Sweden – Sweden has been the worldwide poster-child for "democratic" socialism. But this liberal home of the Nobel Prizes has been changing its ways:
  - It cut its personal income tax in half a few years ago;
  - It repealed its "death tax" five years ago and has experienced a resurgence in economic growth. Many wealthy people who left Sweden because of its burdensome death tax have returned to Sweden.
  - Reduced health care subsidies.

IT CAN AND SHOULD BE DONE

The evidence is clear that nations can – and have – downsized and reversed their course toward fiscal doomsday. The United States can and must do the same. It will require total commitment among independent, freedom-loving Americans. They must be prepared to challenge those who live off government – and like it – mainly the public employees, their unions and the hordes of lobbyists and other "rent-seeking" special interests that congregate in Washington and its beltway world. Those nations which have reversed course all had to streamline their government

workforce and its excessive costs as a key element in their fiscal diet plan. “Entitlement” recipients will have to be prepared for change and participation in the reform process, as well.

The beneficiaries of this new revolution will be average citizens across the Nation – and around the world. For what we do in America will truly be the shot heard round the world and against big government everywhere.

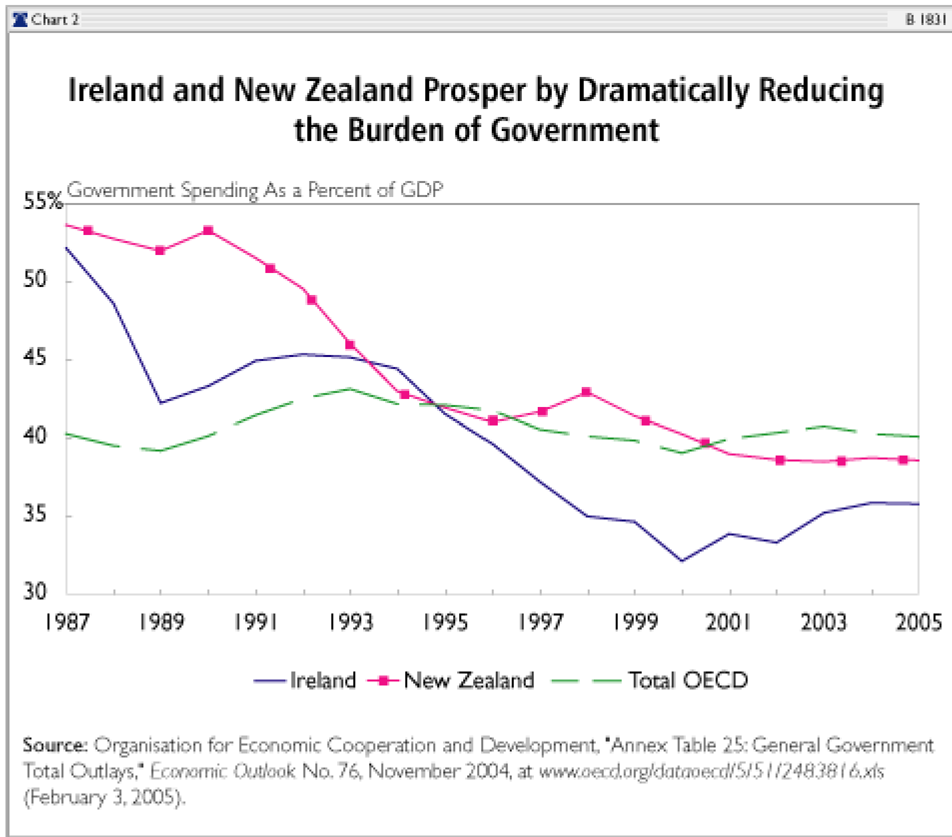


Chart 2
B 1831
Ireland and New Zealand Prosper by Dramatically Reducing the Burden of Government
Government Spending As a Percent of GDP
55%
50
45
40
35
30
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
Ireland
New Zealand
Total OECD
Source: Organisation for Economic Cooperation and Development, "Annex Table 25: General Government Total Outlays," Economic Outlook No. 76, November 2004, at www.oecd.org/dataoecd/5/51/2483816.xls (February 3, 2005).

SECTION 3:

RIGHT-SIZE GOVERNMENT ASSURES

SOCIAL JUSTICE FOR THE POOR

The conventional liberal wisdom in the United States – and among "progressive advocates" worldwide – is that poor (disadvantaged) people are hurt by free-market economics and benefited by government intervention and control. This is the "zero-sum" game mentality: that for someone to win, another has to lose.

The evidence is totally contrary to these theses. The evidence is clear that buoyant, expansive free-market economies are the greatest friend of the least able. That a rising tide lifts all boats is absolutely true. Maximum economic growth is the best friend of those the left presumes to represent, yet liberal tax, regulatory, spending and deficit policies are the major enemies of economic growth.

RETHINKING COMPASSION

Despite overwhelming evidence that increased government spending curtails economic growth, advocates of increased federal spending inevitably seek to occupy the moral high ground, claiming that fiscal conservatives have no compassion for the poor.

However, these self-anointed guardians of the public weal are not spending their money – they're spending ours. They don't write checks on their own accounts but on the Treasury's. there is nothing compassionate in taking money from Peter and redistributing it to Paul, especially if Peter is hard-working and Paul prefers collecting unemployment insurance (we would at least grant some level of moral consistency if legislators with inherited wealth, like the late Ted Kennedy, have turned their entire fortunes over to charity – and *then* asked you and me to "contribute" through the tax system).

We suspect that the "compassion" of most of the liberal big spenders stems from a desire to serve the constituency that elects them – not the unorganized poor but the *public-employee unions and associations that organize and claim to speak for the various constituencies upon whom the bureaucrats livelihood depends.*

Our compassion, on the other hand, runs to the 28-year old divorcee who is a secretary or receptionist providing day care for her child and trying to make ends meet, but not to the unwed mother of three who has never tried to hold a job or exhibited any interest in, or capacity for, self-restrain. We don't think it is right to tax the one to support the other. And tax the one we do. Even though she may pay little or no direct personal income tax, she pays more than six percent of her salary in Social Security tax and pays hidden takes (corporate income taxes, import duties and various fees) in everything she buys.

Our compassion runs to the young family trying to buy a home and raise three children. We tax them to provide unemployment compensation to a single male who works just long enough to qualify for unemployment payments and then goes fishing until his "benefits" run out.

Tax revenues from the "rich" represent only a portion of the support payments for those on welfare and unemployment compensation. It is working people and their entrepreneurial employers who supply the bulk of the funds. (For example, in California the employer pays 1.5 percent unemployment tax on the first $7,000 of every

employee's income.) But the liberal big spenders ignore this reality in their pell-mell race to demonstrate their "compassion" for the poor.

LIBERAL HYPOCRISY

One of the reasons the liberals can get away with this hypocrisy is that the national media, by and large, shares the values of the big spenders and will not unmask them. The late Irving Kristol remarked that "the popular media are pleased to sharpen and dramatize" the liberals' preoccupation with the poor because "sanctimonious compassion has always been a key element in their professional self-definition."

"But what if it can be shown that increased government spending is destructive to greater prosperity?" asks Richard W.. Rahn, former Chief Economist of the Chamber of Commerce of the United States. "Then, *the whole moral basis of the argument for increased government spending begins to shrivel away.* In fact, the evidence is clear that beyond a certain point (government provision of a judicial system, defense, law and order, public health and other 'public goods,' including security of personal and property) increases in government spending (as a percentage of GNP) become an economic hindrance; that is, *additional spending is more likely to increase economic misery than to alleviate it."* (Emphasis added.)

Study after study – worldwide – has confirmed that economic growth and vibrance in a nation creates great benefits for the poor and all the people. Freedom and free enterprise accomplish this:

- A recent study of India entitled "Socialism Kills," charts the course of India's emergence from socialism over the last 50 years. All "human development indicators" have improved dramatically – poverty has declined substantially; literacy has improved markedly; infant mortality rates have dropped precipitously. In other words, the very people the Indian socialists swore to help were helped much more by a smaller government and greater private-sector economic growth. ("Socialism Kills: The Human Cost of Delayed Economic Reform in India," by Swaminathan J. Anklesaria Aiyar, Cato Center for Global Liberty and Prosperity Development Policy Briefing Paper #4, October 2009.)

- In a recent Cato study on Latin America and the size of government, the authors posited: "An important policy goal of governments is to improve the economic well-being of their citizens." They did not talk about the top-tier earners but all citizens when they concluded: "Our results are consistent with the notion that the typical Latin American government wastes too many resources on ineffective bureaucracy and harms the well-being of their citizens." For Latin America they concluded that about 14 percent of GDP would be the right size of government and that every one percent increase in the size of government costs Latin American countries' economies about one-quarter percent in economic growth – a huge, but consistent (with other nations) assault on the well-being of *all* citizens, rich and poor. ("Can Latin America Prosper by Reducing the Size of Government," by Radhames Lizardo and Andre v. Mollick, Cato Journal, Vol. 2, No. 2; Spring/Summer 2009, p. 247.)

- In New Zealand, Gerald Scully concluded that increasing the size of government had its greatest adverse impact in labor markets, on labor-force participation and unemployment rates.

A one percentage point increase in the ration of taxes to GDP lowered employment growth by over 40,000 workers. He found the optimal tax level for maximizing employment is about 20 percent of GDP. ("From Welfare State to Optimal Size of Government: A Paradigm Shift for Public Policy," Patrick J. Caragaa, Agenda Vol. 5, Nov. 3, 1998, p. 281.)

- In 1997 the World Bank's *World Development Report* concluded that growth of government has an important and consistently *negative* impact on a nation's standard of living.

In a recent, excellent study by the Pacific Research Institute on the bloated government of California, the authors provide an updated survey on "Size of Government and Social Well Being" internationally. Some of their findings include:

- "Gerald Scully was also a key contributor in this area. In his 2000 study, "Public Spending and Social Progress," Scully examined 16 indicators of social well-being, including literacy, infant mortality, life expectancy, caloric consumption, access to health care, infrastructure, political freedom, civil liberties, and economic freedom. Using data from 112 countries, he found that while government spending had a positive impact on social progress initially, most developed countries were spending well beyond the point at which government spending maximized social outcomes. In addition, Scully concluded that government consumption spending ceased to yield any additional social progress, as measured by the 16 social indicators, at 18.6 percent of GDP for advanced countries. For the United States, Scully estimated that government consumption spending ceased to yield additional benefits beyond 15.3 percent of GDP.

- "A 2005 study by Antonio Afonso, Ludger Schuknecht, and Vito Tanzi analyzed the impact of government spending on the welfare of citizens by examining a host of social indicators in 23 OECD countries. Specifically, the authors examined secondary school enrollment rates; educational achievement in reading, mathematics and science; infant mortality rates; average life expectancy; quality of communication and transport infrastructure; and income distribution. To measure the performance of governments, the authors calculated an overall Public Sector Performance (PSP) index. They concluded that countries with "small" governments significantly outperform countries with medium or large governments.

More recently, Tanzi re-examined the relationship between the size of government and social well-being in a 2005 paper. He concluded, 'It is often assumed that the welfare of citizens is linked to the numerical results of certain socioeconomic indicators—such as life expectancy, infant mortality, educational achievements, literacy rates, growth in per capita incomes, inflation, and others—that governments attempt to influence through their public spending. The evidence, however, shows that there has been little relationship, if any, in recent decades between the changes in the countries' shares of public spending in GDP and the changes in the desired direction, of these socioeconomic indicators.'

In particular, Tanzi examined the performance of OECD countries on the United Nations Human Development Index (HDI). The HDI serves as a general index for social wellbeing and includes measures of health (life expectancy), education (literacy rates and primary, secondary, and tertiary gross enrollment), and living standards (GDP per person). Tanzi found that "there is no identifiable relationship between levels of public spending and HDI.

- “Similarly, Antony Davies, in a 2009 study, examined the relationship between the HDI and the "optimal" size of government among 154 countries from 1975 to 2002. The author found that Scully's inverted-U-shaped curve generally depicted the relationship between government spending and social progress. Specifically, he found the optimal size of government (government consumption and investment spending) that achieved the maximum HDI improvement to be approximately 30 percent of GDP. While the author noted that optimal government was greater than that found by Vedder and Gallaway (1998) and by Scully (1994), he concluded that "the difference may simply be due to the different outcome measure," the HDI versus GDP or other broader measures of social welfare.

- “Christian Bjornskov, Axel Dreher, and Justina A. V. Fischer recently examined the effects of government size on life satisfaction for a sample of 74 countries from 1997 to 2004. Using data from the World Values Survey, the authors found a strong negative relationship between the size of government (as measured by government consumption expenditures) and life satisfaction. Based on their findings, the authors recommended that in order to maximize average life satisfaction, governments should focus on limiting their direct interventions in the economy to a minimum necessary level that allows the population a high degree of personal freedom.

“Conclusion: Big government negatively impacts the economy. While government spending is necessary for core services, governments can get too big and negatively impact the economy. Research confirms an optimal size of government and evidence reveals that small governments achieve the same or even greater levels of social progress than large governments. <u>While estimates for the "optimal" level of government vary by country and across time, estimates for the United States suggest that the optimal level is between 15 to approximately 25 percent of GDP and is more likely to be on the lower end of this range.</u> (Emphasis added.) This level is a far cry from the current level of total government sending in the United States, which is now more than 40 percent of GDP.” [“No Bang for the Taxpayer’s Buck: Why California Must Reform Spending and Trim Government,” Jason Clemons, Niels Veldhuis and Julie Kaszton, Pacific Research Institute, 2010]

The new approach to governing – right-sizing government – not only aligns with common-sense governance and the Founders’ conception of this “noble experiment in self government,” but it is the only avenue to a bright future for the poorest and least able among us … and for all Americans for generations to come. So now, let’s get t the right-sizing process.