POLITEIA
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THINK TANK URGES PORTILLO TO PROMISE DRASTIC CUT IN PUBLIC SPENDING

Public spending in the UK, and in almost all the industrialised world, is far, far too high, argues the distinguished economist David Smith, in his pamphlet for Politeia,* an independent think-tank which has close connections with leading Conservatives both in and out of the Shadow Cabinet. Smith's pamphlet contains an important message for Michael Portillo, under whose aegis 'the party of the late Lord Joseph and of Lady Thatcher seems … to have abandoned the classic liberal economic principles which could give its policies both intellectual coherence and, in the long run, electoral appeal.' For, as Smith observes at the beginning of his discussion:

> Unfortunately, and unlike the electorally successful Republicans of the US, the Conservative opposition has so far chosen to play down what should be one of its defining principles. It promises minuscule cuts in public spending, financed by various supposedly painless economies, whereas it should, if it follows the dictates of good economics as well as its own political principles, be looking to reduce public spending drastically, to no more than one third or so of GDP.

Smith goes on to explain how rising public expenditure, especially on welfare, is the most striking economic feature of the twentieth century. The only industrialised country which, to some extent, has avoided the trend is the United States. Official figures, Smith argues, are usually computed on a basis which underestimates the proportion of GDP which is taken by public, as opposed to private, spending. Smith's especial concern is to make the economic, rather than the philosophical, case against the high levels of public expenditure which are now found and accepted in UK, Europe and elsewhere in the industrialised world. Evidence from detailed studies of many national economies over a long period shows that high public spending makes countries much poorer than they would have been had they kept it lower. The result is that the very aim of high welfare spending is frustrated, since there is much less money available for welfare and redistribution than there would have been, had the public sector been kept small. Take the example of Sweden. In 1960, the state sector took 31% of GDP, whilst in 2000 it took 58.5%. Had it confined the state sector to its 1960 level, the extra output which it would have generated in the period from 1960 would have allowed the equivalent of almost 104% of its actual GDP in 2000 to be expended on welfare.

Not only does high public spending tend to impoverish economies directly. It also affects them adversely through requiring high rates of tax. Smith sets forth succinctly the arguments given by many leading economists to show the bad economic effects of high taxation.

The reason why governments have raised public spending to levels which go against their national economic interests is, Smith explains, the gap between taxation and representation. Many of those voting for a government do not themselves have to bear the high taxes which high public spending requires. The most direct solutions to this problem – raising all government revenue by means of a poll tax, or weighting votes, at least in part, in accord with an individual's tax contribution – are not practicable politically, and perhaps not desirable or practicable at all. Rather, Smith argues that:

(1) We should move, so far as possible, to simple proportionate flat rate taxes.
(2) We should bring back the contributory principle to social insurance – a principle increasingly violated from the 1960s onwards by the growing reliance on discretionary benefits.
(3) Responsible politicians should attempt to educate the population about the adverse long-run implications of excessive public expenditure on the further growth in their living standards.

Public Rags or Private Riches? High Public Spending Makes Us Poor* by David B. Smith, Chief Economist of Williams de Broe, is available from **Politeia, 22 Charing Cross Road, London, WC2H 0HR, cost £5.00.