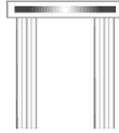


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A Lower Tax Future: IMF Economist makes the case for Radical Reform of Public Services and Reduced Public Spending in next Politeia pamphlet

The 21st century has begun with some of the highest levels of public spending – and the taxes needed to finance it. Will governments now bow to the political and economic case for cutting? Or, will they insist, as the UK government does, that cutting public spending – and tax – would damage public services.

Politeia's next pamphlet, *A Lower Tax Future? The Economic Role of the State in the 21st Century**, shows that they would be wrong to do so. The author, Professor Vito Tanzi, explains that public spending and tax, now at historically high levels, can and must be cut; and that such cuts will not necessarily damage good public services. Indeed as Tanzi explains, the evidence (including the UN Human Development Index) from industrial countries on indicators such as life expectancy, infant mortality, educational achievements, literacy rates, growth in per capita incomes and, inflation, shows that:

There has been little relationship, if any, *in recent decades* between the changes in the countries' shares of public spending of GDP and the changes in the desired direction of these socio-economic indicators. Countries that allowed their public spending to grow....do not show better quantitative results for these than countries that kept their governments smaller and leaner...

Tanzi suggests, the problem is not one of a decline in welfare standards, but often the politicised opposition from those who now benefit from the spending programmes, e.g. employees with higher salaries or individuals with higher pensions.

However change is inevitable. Already there is broad agreement amongst economists that the state should not produce those goods or services which the private sector can produce; that technological progress has put an end to the case for public ownership; and that the development of markets will continue apace. This means that the role of the state must change too, with an end to state monopolies in pensions, healthcare and education. Government, Tanzi, concludes:

Should now scale down its operation. If it were not for the legacy of past commitments, the private sector that exists now, or that could exist in...industrial countries, would make it possible for government to reduce its public spending and its tax burden significantly... [and, as Tanzi has already proposed]...no country needs to spend more than 30 per cent of its gross domestic product on public sector activities...

A Lower Tax Future? The Economic Role of the State in the 21st Century* will be published by Politeia in the week beginning Monday 22nd November, and is available from Politeia, 22 Charing Cross Road, WC2H 0QP at £~~???~~5.00. **The text will be available by e mail in advance to journalists on application by response to this message. Enquiries to Politeia on 0207 240 5070, or by e-mail info@politeia.co.uk / VITOT@Contractual.IADB.ORG

Professor Vito Tanzi was Director of the Fiscal Affairs Department at the IMF from 1981-2000. He is the author with Ludger Schuknecht of *Public Spending in the 20th Century A Global Perspective* (Cambridge University Press, 2000)