Politeia, 22 Charing Cross Road, WC2H 0QP
E mail: info@politeia.co.uk Telephone: 0207 240 5070

PRESS RELEASE PRESS RELEASE PRESS RELEASE PRESS RELEASE

**Publication: Immediate**

# *How to Cut Public Spending! Great gain for little pain,* says Politeia's next study

As Gordon Brown prepares his *Pre-Budget Report*, Politeia's next study* shows that the Chancellor is losing the economic battle against Britain's competitors. While he has been spending, and borrowing, others have stolen a march by cutting public spending.

*Reforming Public Spending: Great Gain, Little Pain,* shows that industrial countries have cut public spending by an average of 7% of GDP over the last two decades. The UK is being left behind, where she once led.

The rewards for the reformers have been great. The authors, Dr Ludger Schuknecht (of the ECB at Frankfurt) and Professor Vito Tanzi (formerly at the IMF in Washington) show that cuts have led to economic recovery with higher growth and employment, and lower debt and interest charges. Trend growth rose from c. 2% to c. 4% for the early reformers (2% to 3% for the late reformers). The employment figures tell the same story, one of a rise in the employment ratio – c. 8% for the ambitious early reformers (c.4% for the timid). Reform has also made room for tax cuts.

Nor, the authors show, do social programmes like education, need to suffer. Ambitious reformers did not concentrate cuts on productive spending like education. Rather the reductions were due to the fall in interest costs, transfers and subsidies. Moreover the evidence from the UN's Human Development index shows that countries with higher public spending as a percentage of GDP do not have a higher quality of life as measured by the UN Human Development Index. Indeed countries with public spending close to 30 % of GDP have some of the highest scores on the index. Although income distribution may become wider, reform has not led to a significant change, and economic growth has moderated or even more than compensated for the changes in the income share for the poorest quintile for ambitious reformers.

As he prepares his *Pre-Budget Report*, the Chancellor might heed these and other lessons from those who have succeeded where he has failed. Reforms begin during downturns – and contrary to some economic advice, there is no need to wait for good times. Countries which want to make a start in cutting, must tackle welfare spending and transfers such as those on benefits and pensions. Above all, cutting public spending brings economic gain and need not hurt social spending. As the authors say

> Public Spending pitched at 30-35 % of GDP was more likely to provide the government of a country with sufficient resources to support all the activities that…merit public support….Governments……can be much leaner and yet equally effective in attaining their basic objectives provided they protect property rights and the rule of law, ensure essential public goods (including infrastructure and basic schooling) and provide basic social safety nets….

*Reforming Public Spending: Great Gain, Little Pain:* is published by Politeia, and is available from Politeia, 22 Charing Cross Road, WC2H OQP at £5.00.**The text will be available by e mail to journalists on application by response to this message.** Enquiries to Ludger Schuknecht on +49 69 13 44 0 or Vito Tanzi at vitotanzi@msn.com - or to Politeia on 0207 240 5070, e-mail, info@politeia.co.uk. Dr Ludger Schuknecht is Head of the Fiscal Surveillance Section at the European Central Bank. Professor Vito Tanzi was Director of the Fiscal Affairs Department of the International Monetary Fund (1981-2000).