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Bloated Britain set to lose out economically as leaner states make the running for the 21st Century

Across Europe, Governments are bringing – or keeping – their spending down. Public spending in some European countries is already around 35% of GDP – eg. Ireland (at c. 33% of GDP) and Switzerland (at c. 34% of GDP). And in the new Europe, Governments are spending around 34% of GDP, with growth at 10%. Older Europe too has begun to change. Germany is cutting public spending and the French are liberalizing their employment laws. Across the wider world, the story is the same – from established economies, like the US (at 34% of GDP) and Australia (at c. 35% of GDP) or in the new emergent dynamic economies of Asia. In the UK, by contrast, public spending as a percentage of GDP is going up. Does this matter?

In *At a Price! The True Cost of Public Spending* Allister Heath and David B. Smith consider the figures. Public spending as a percentage of GDP has gone up, more in fact than the official figures suggest. Even at the lowest estimate, Britain is poised to spend around 45% of GDP next year. The consequences for this country could be grave and extremely damaging

Allister Heath measures the growing public sector in Part I. Here too the official figures underestimate the huge expansion. In fact the increases in the public sector are higher in percentage terms than for the private sector. The Office of National Statistics (ONS) puts the figure at 5,826,000 and the International Labour Organisation's figure is 7,054,755. But these do not tell the whole story. Quite simply there are more people on the payroll than are counted as 'employed'. The rapid growth of the UK 'client state' means as Heath points out that,

> roughly 20.248m. people, close to 46 per cent of the electorate, rely on the state for all or more than half their income…and this without…including all or those on tax credits…[beneficiaries of] the Common Agricultural Policy, Network Rail employees and other groups partly or wholly dependent on government

David B Smith's meticulous analysis shows how the UK's public spending is even higher than the official Treasury estimates reveal, and is set to rise further. He warns of the dangers to Britain's economy. In addition to the threat posed to individual liberty and that to property rights, the economic fall out is considerable. High public spending discourages effort, risk taking and investment. Additional costs – known as 'deadweight' – are high. They might add as much as 20-60 per cent to the sum raised in tax. Growth rates suffer, with lower economic growth and growth foregone. And the competitive edge of Britain's economy is lost to countries with lower levels of public spending as a percentage of GDP. The cost of pushing public spending between the optimal point, are says Smith, serious. Not only do personal liberty and property rights suffer. But big states,

> tend to be inefficient and …corrupt…The economic costs of a large – or too large – state are higher, slower growth, high structural unemployment, and the static inefficiency in the use of scarce resources.

Nor do such high levels of spending make for better public services. The evidence now is that there is no appreciable gain for spending over and above 35 percent of GDP when it comes to social goals. The message is clear. Higher public spending is not needed for better social or public services. There is little to gain from pitching the level above 35 per cent of GDP and much, economically, to lose.

At a Price! The True Cost of Public Spending: is published by, and available from, Politeia, 22 Charing Cross Rd, WC2H OQP at £7.00.**The text will be available by e mail to journalists on application by response to this message.** Enquiries to Politeia on 0207 240 5070, e-mail, info@politeia.co.uk.

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