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THE POINTMAKER

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SUMMARY

- This paper reviews the performance of 20 countries. Ten are labelled as having "slimmer governments" which have government revenue and expenditure below 40% of GDP. Their records are compared with ten higher-taxed, "bigger government" economies. All the countries covered are classified as industrialised or advanced economies by the OECD and IMF, or are members of the EU.

- Slimmer governments have, on average, **reduced personal and corporate tax rate** at a faster pace than bigger governments. They are now 30% and 22% respectively, compared to 45% and 29% for bigger governments.

- Slimmer governments have **a lower average government spending ratio** (32% of GDP compared to 48%).

- Slimmer governments have, on average, **significantly higher growth rates**. Their GDP increased by an average of 5.4% a year between 1999 and 2008 (compared to only 2.1% for bigger governments over the same period).

- Slimmer governments also **deliver higher social gains** in some areas than bigger governments. They have, on average, higher employment annual growth rates (1.7% compared to 0.9%) and higher growth in spending on public services (3.4% between 1990-2000 and 2000-2005 compared to 1.7%). Average life expectancy, tertiary education and income distribution are all broadly similar between the two groups.

- Slimmer governments also on average **spend more on defence** than bigger governments (2.2% of GDP compared to 1.7%); and also spend more on law and order (1.8% compared to 1.5%).

- Of course, tax rates and levels, and the size and nature of government interventions, are not the only factors affecting a country's economic performance. But **this evidence firmly rejects the widely held view that lower taxes inevitably result in cuts in public services**, or at best their slower growth, and wide income disparities.

CHAPTER ONE

WERE THE SUPPLY-SIDERS RIGHT?

In the early 1980s, US President Ronald Reagan embraced the ideas of a small group of economists dubbed "supply-siders". They argued that lower taxes and slimmer governments would stimulate enterprise, harder work, and higher levels of saving and investment. Thus economic growth would be boosted, and more resources made available to improve health, education and other social services, both public and private. Household incomes and overall living standards would rise faster, they claimed.

These views were widely ridiculed by members of the political and economic establishments of the time. They were dismissed as "voodoo economics" or "Reaganomics". President Reagan did succeed in lowering some taxes. But a Democrat-controlled Congress weakened their impact by raising government spending sharply, resulting in large budgetary deficits.

A quarter of a century later, more and more countries have cut taxes, and reined back heavy-handed government intervention. How far have they gone along this path, and with what success?

This paper reviews the performance of 20 countries. Ten are labelled as having "slimmer governments" which have brought, or kept, government revenue and expenditure below 40% of GDP. They have also reduced top tax rates on individual and/or corporate income significantly, or maintained them at relatively low levels. Their records are compared with ten higher-taxed, "bigger government" economies. All the countries covered are classified as industrialised or advanced economies by the OECD and IMF, or are members of the EU.

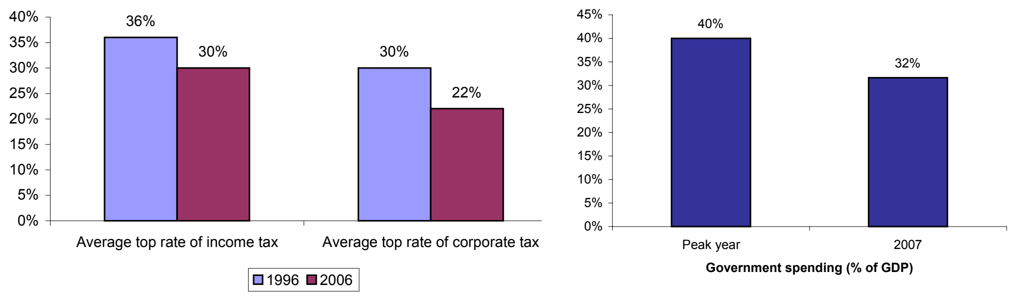
Slimmer government countries (Government revenue and expenditure under 40% of GDP)	**Bigger government countries** (Government revenue and expenditure over 40% of GDP)
Australia	Austria
Canada	Belgium
Estonia	Denmark
Hong Kong	France
Ireland	Germany
South Korea	Italy
Latvia	Netherlands
Singapore	Portugal
Slovak Republic	Sweden
United States	UK

Note: These countries were selected as they are broadly representative of the countries that fall within the two categories examined (with tax and government expenditure ratios falling below or above 40% of GDP), and cover large, medium and relatively small-sized economies. The average income levels per head for the two groups are similar ($27,000 gross national income per head in ppp$ in 2005 for slimmer government countries compared to $30,426 for bigger government countries). The time periods and years covered vary, depending upon the practices adopted by the various statistical sources cited. The latest available data are given. Low-income developing countries have been excluded because it is sometimes argued that, irrespective of their tax levels, their low labour costs and easy access to a wide range of existing technologies allow them to grow faster and to catch up with richer countries. However, the records of many poor countries do not always support this theory.

CHAPTER TWO
THE ECONOMIC RECORD

According to the World Bank, slimmer governments have cut their highest tax rate on personal income from a group average of 36% in 1996 to 30% in 2006. Top corporate rates were lowered from an average of 30% to 22% (see table 1 in the Statistical Annex for full data). The average ratio of total government outlays to GDP fell to 31.6% in 2007, reports the OECD, from an average peak level during the previous two decades of 40.4% (table 2).

SLIMMER GOVERNMENTS: LOWER TAX RATES AND LOWER GOVERNMENT SPENDING

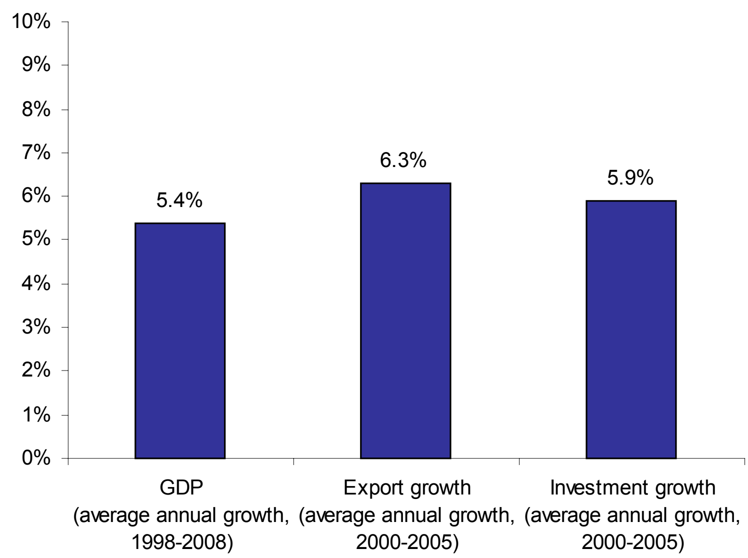


See tables 1 and 2 in the Statistical Annex for data and sources.

The response has been positive. The World Bank says that gross capital formation rose from an average of 25% of GDP in 1990 to 28% in 2005 (table 3). Investment growth jumped to an average annual rate of 5.9% in 2000-2005, from 3.8% over the previous decade. Employment expanded at a strong 1.7% annual rate from 1995-2005, according to the OECD (table 3). Labour productivity went up by 2.4% annually from 1997-2007.

Exports have risen by 6.3% annually since 2000. The net result was a surge in economic growth. The IMF reports that GDP soared in the slimmer government group at a 5.4% average annual rate from 1999-2008 (including its forecast for the current year), up from a 4.6% rate over the previous decade (table 1).

SLIMMER GOVERNMENTS: HIGH GROWTH RATES



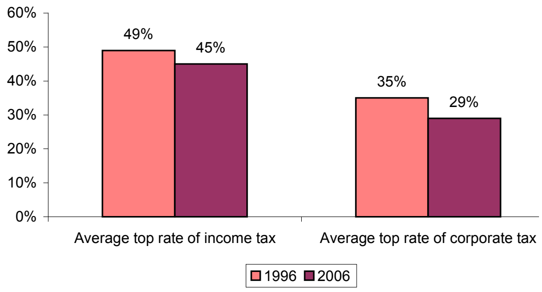
See tables 1 and 3 for data and sources.

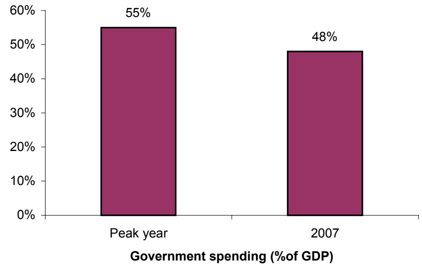
THE RECORD OF BIGGER GOVERNMENTS

How did the "bigger government" group fare? Eight countries in this group also lowered their top individual and/or corporate tax rates. But they generally started at higher levels, and were more timid in their reductions. Their average highest individual rates declined from 49% to 45%, and corporate rates from 35% to 29%. But the gaps separating them from the slimmer government group widened. These gaps reached 15 percentage points for the top individual income tax rate, and seven points for the corporate rate in 2006.

Furthermore, bigger governments still extracted an average 49.1% of GDP from their countries' households and enterprises in 2007, only slightly below their average peak level of 51.8%. And their average spending level only fell to 48.3% from a peak of 55.2%.

BIGGER GOVERNMENTS: SLIGHTLY LOWER TAX RATES AND LOWER GOVERNMENT SPENDING – BUT THE GAP BETWEEN SLIMMER AND BIGGER GOVERNMENT WIDENS

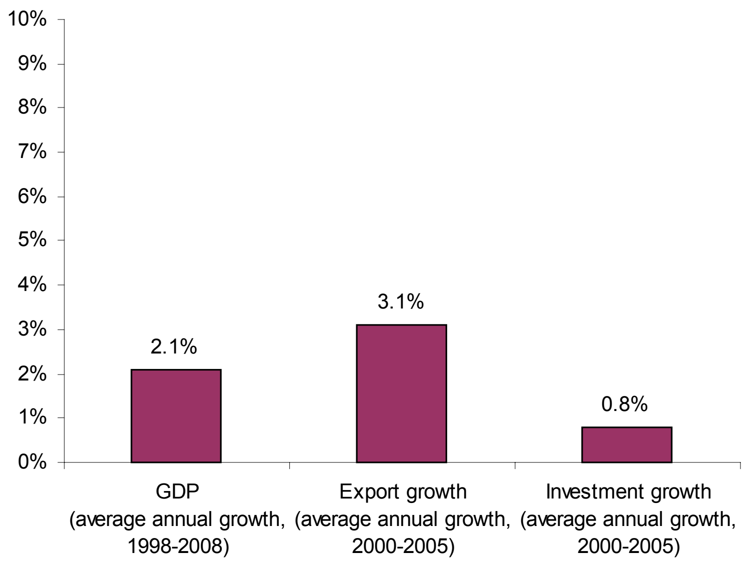




See tables 1 and 2 for data and sources.

The bigger government group saw their average gross capital formation ratio dropped to 20% of GDP in 2005 from 23% in 1990. And investment growth slowed to an average annual rate of 0.8% in 2000-2005, from 4.1% in 1990-2000. Their export growth rate almost halved to 3.1% annually in 2000-05, down from 6.1% in 1990-2000. The bottom line is a drop in their average annual GDP growth rate to 2.1% in 1999-2008, from 2.3% over the previous decade. However, these average figures do hide significant differences in performance within the group. Sweden more than doubled its average annual GDP growth rate to 3.1% over the last decade. Although its tax burden remains relatively high, its economy reacted well to substantial reductions in government revenue and spending levels.

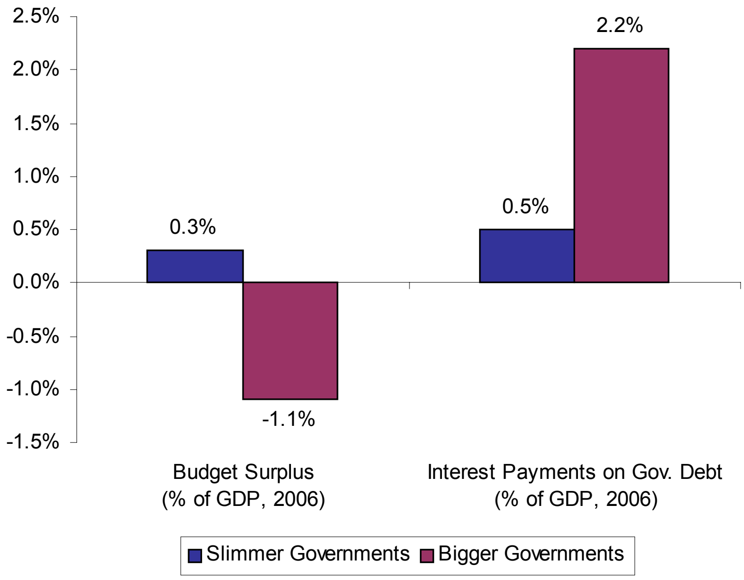
BIGGER GOVERNMENTS: LOW GROWTH RATES



See tables 1 and 3 for data and sources.

Bigger governments didn't generally succeed in balancing their books. They ran budgetary deficits averaging 1.1% of GDP in 2006, whereas slimmer governments generated an average surplus of 0.3% of GDP. Their net government debt averaged 39.2% of GDP in 2006, more than four times higher than the latter's. Interest payments on their debt took 2.3% of their GDP, compared with an average of just 0.5% in the slimmer government group (table 8).

SLIMMER GOVERNMENTS ENJOY MORE STABLE FINANCES



See table 8 for data and sources.

CHAPTER THREE
THE SOCIAL RECORD

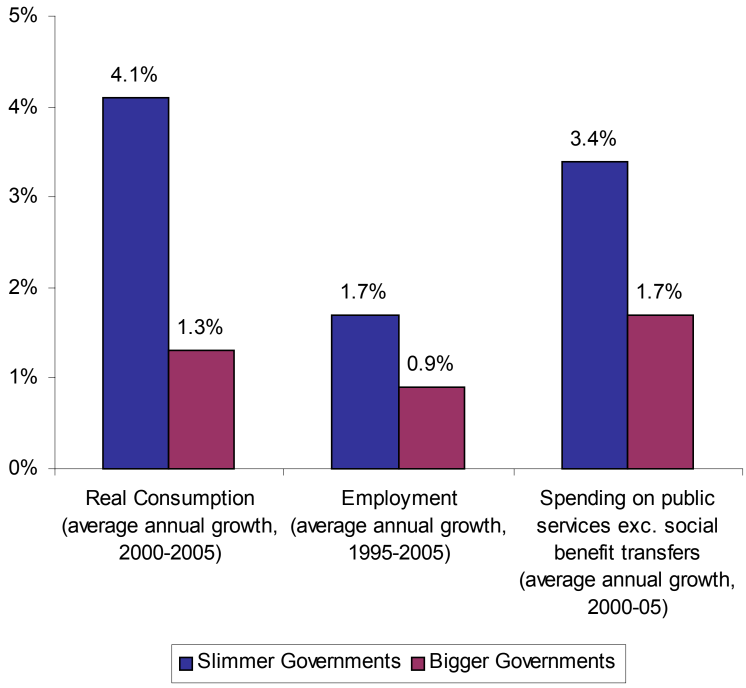
The previous chapter suggests that the supply-siders' economic arguments are valid. But have slimmer governments delivered substantially weaker social gains than bigger governments, as many critics allege?

The answer is no for several indicators. The discretionary income of households rose faster in the first group. This allowed their real consumption to grow by 4.1% annually from 2000-2005, up from 2.8% in 1990-2000, according to the World Bank (table 4). In the bigger government group, growth of household consumption has slowed to a 1.3% average annual rate, from 2.1% during the 1990-2000 period.

Employment growth accelerated in the bigger government group, from 0.4% annually in the decade 1986-1995, to 0.9% from 1995-2005 (table 3). But the OECD reports that this latter figure is only half the rate achieved by slimmer governments over the whole 1986-2005 period. And the latter's youth unemployment rates have been lower for both males and females since 2000 (table 7).

Government consumption (that is, its expenditure on public services, excluding social benefit transfers) also increased faster in the first group. It rose from an average annual rate of 2.8% from 1990-2000 to 3.4% in 2000-05 (table 7). This latter rate was double that realised by bigger governments.

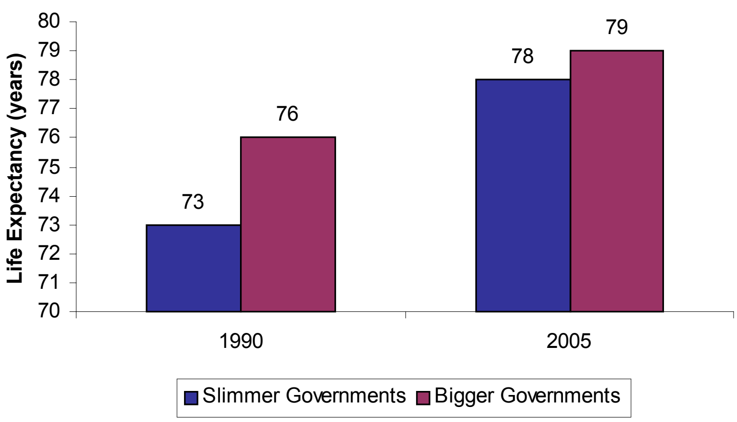
SLIMMER GOVERNMENTS ENJOY HIGHER EMPLOYMENT GROWTH AND HIGHER GROWTH FOR SPENDING ON PUBLIC SERVICES



See tables 4, 3 and 7 for data and sources.

According to the World Bank, total spending on health programmes reached 9.5% of GDP in the second group in 2004, 1.6 percentage points above the average in the first group (table 9). Yet slimmer government countries have raised their average life expectancy at birth at a faster pace since 1990, reaching an average level of 78 years in 2005, just one year below the average for bigger spenders (table 9). Average life expectancy is now 80 years in Singapore, although government and private health programmes combined cost only 3.7% of its GDP. Slimmer government countries seem to have made better use of their smaller health resources.

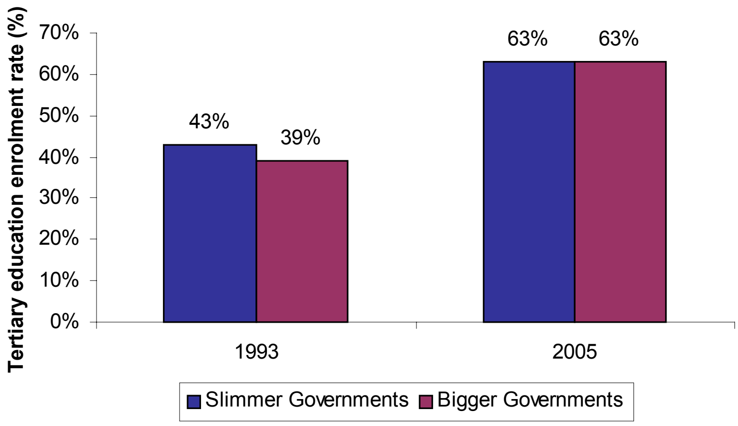
LIFE EXPECTANCY SIMILAR FOR SLIMMER AND BIGGER GOVERNMENTS



See table 9 for data and sources.

The World Bank reports that slimmer government countries spent less on education (5.0% of GDP) in 2005, versus 6.0% by bigger governments. But both groups had identical average tertiary education enrolment rates (63%) in 2005 (table 10).

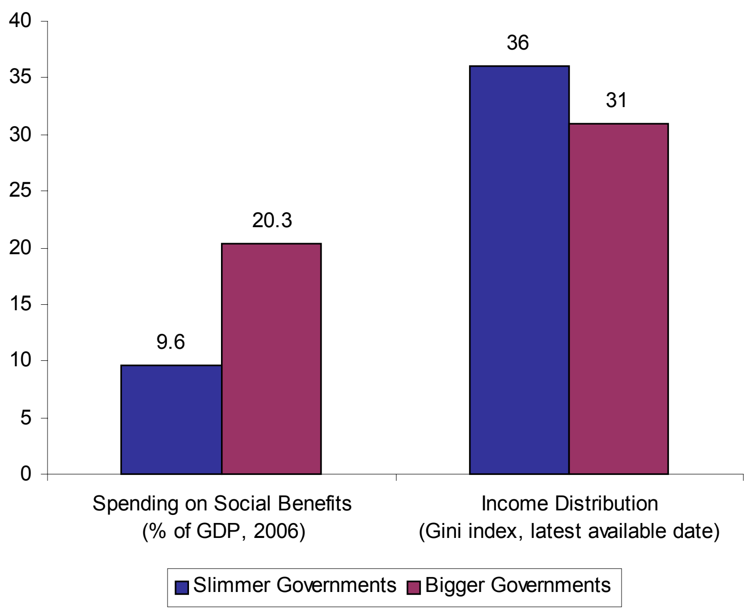
TERTIARY EDUCATION RATES NOW IDENTICAL



See table 10 for data and sources.

Finally, the IMF says that spending by bigger governments on social benefits (such as unemployment and disability benefits, housing allowances, free school meals, and state pensions) was higher (20.3% of GDP) in 2006 than in slimmer governments (9.6%) (table 4). These transfers from the rich to the poor, and from the employed to the economically inactive, do not appear to have resulted in greater equality of income distribution. The Gini index measuring income distribution averages 31.4 in the latter group, not much lower than the average (36.0) in the first (table 4).

INCOME DISTRIBUTION SIMILAR DESPITE GREATER SPENDING ON BENEFITS IN BIGGER GOVERNMENT COUNTRIES



See table 4 for data and sources.

Clearly other forces are at work, helping to narrow income disparities in slimmer government economies. These forces include wage-setting practices, employment levels, saving habits, the availability of employer-funded pension schemes, and income sharing among extended families. And in the long term, high mandatory government transfers may weaken the economic incentives of both recipients and donors.

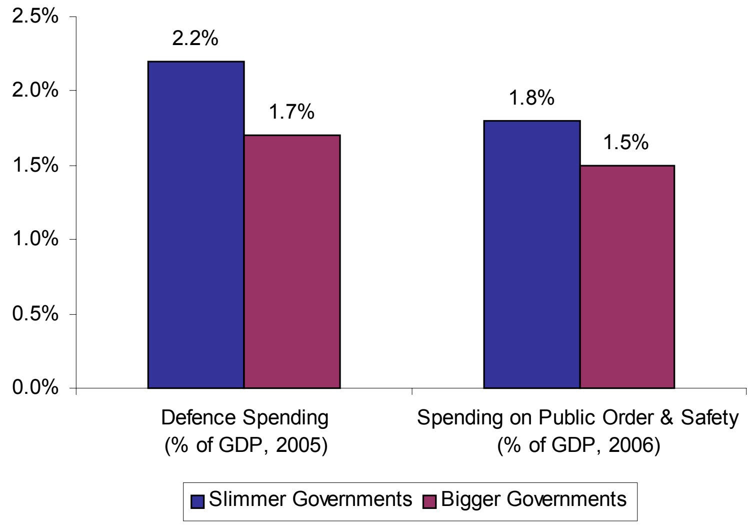
CHAPTER FOUR
SECURITY

How about those prime responsibilities of government – defence and law and order? Most of these functions cannot be performed more efficiently by the private sector, or by households and individuals acting alone.

Both groups have reduced the share of defence spending in GDP over the last decade. The slimmer government average fell 0.1 points to 2.2% in 2005, but this level was 0.5 percentage points above the bigger government average (table 11). It is striking that the country in this group with the largest population to defend – Germany – devoted only 1.4% of its national income to protecting its citizens from foreign aggression, or contributing to UN/NATO peace-keeping operations around the world. It relies on the shield provided mainly by the US, which allocated 4.1% of its GDP to defence in 2005. And when there are many reports that international peace-keeping operations across the world are seriously undermanned, it is surprising that the average share of armed forces personnel in the total labour force in the bigger government group has fallen to 1.1%, from 1.5% in 1995, whereas it grew to 1.7% from 1.5% in the slimmer government group (table 11).

Information on public order and safety expenditures is incomplete. But for the 11 countries for which data are available, slimmer governments seem to take their responsibilities more seriously. They spent an average of 1.8% of GDP on these functions in 2006, compared with 1.5% by bigger governments (table 11).

SLIMMER GOVERNMENTS SPEND MORE ON DEFENCE AND LAW & ORDER



See table 11 for data and sources.

CONCLUSION

These overall findings suggest that the analysis and prescriptions of the early supply-siders were correct. Of course, tax rates and levels, and the size and nature of government interventions, are not the only factors affecting a country's economic performance. But this evidence rejects the widely-held view that lower taxes inevitably result in cuts in public services, or at best their slower growth, and widening income inequalities.

Although the turmoil in financial markets is preoccupying policy makers at present, they should not lose sight of the stimulus that tax cuts and the pruning of inefficient government programmes could give to sluggish economies. The need to realign some governmental priorities is also revealed.

STATISTICAL ANNEX

TABLE 1: TAX RATES AND GDP GROWTH RATES

	Highest individual tax rate		Highest corporate tax rate		Real GDP Growth (Ten–year average annual % rate)	
	1996 %	2006 %	1996 %	2006 %	1989–98	1999–2008
Slimmer governments						
Australia	47	47	36	30	3.3	3.4
Canada	29	29	38	22	2.1	3.1
Estonia	n.a	23	23	23	n.a	7.8
Hong Kong	20	20	17	18	3.8	5.3
Ireland	48	42	40	13	6.4	6.0
Korea	40	35	28	25	5.9	5.5
Latvia	35	25	25	15	n.a	8.1
Singapore	30	21	27	20	7.8	5.8
Slovak Rep.	n.a	19	n.a	19	n.a	6.4
United States	40	35	35	35	3.0	2.6
Average	**36**	**30**	**30**	**22**	**4.6**	**5.4**
Bigger governments						
Austria	50	50	34	25	2.7	2.3
Belgium	55	50	39	34	2.3	2.2
Denmark	65	59	38	28	2.2	2.0
France	n.a	48	33	33	1.9	2.1
Germany	53	42	30	25	2.5	1.5
Italy	51	43	37	33	1.6	1.4
Netherlands	60	52	37	30	3.1	2.3
Portugal	40	42	36	25	3.6	1.7
Sweden	30	25	28	28	1.4	3.1
United Kingdom	40	40	35	30	2.0	2.7
Average	**49**	**45**	**35**	**29**	**2.3**	**2.1**

Sources: World Bank, *World Development Indicators (WDI) 2007,* table 5.6 and *WDI,* 1997 table 5.8; and IMF, *World Economic Outlook,* October 2007, Appendix tables A2 and A4.

TABLE 2: PER CAPITA INCOME, GOVERNMENT REVENUE AND EXPENDITURE

	GNI per capita in ppp$	General government total receipts % of GDP		General government total outlays % of GDP	
	2005	peak	2007	peak	2007
Slimmer governments					
Australia	30,610	37.1	35.4	38.2	34.0
Canada	32,220	44.9	39.9	53.3	38.6
Estonia	15,420	n.a	36.6	n.a	33.0
Hong Kong	34,670	n.a	18.6	n.a	18.6
Ireland	34,720	42.0	37.0	44.9	34.7
Korea	21,850	31.7	31.7	31.7	31.7
Latvia	13,480	n.a	35.5	n.a	35.8
Singapore	29,780	27.1*	19.9	21.4*	15.8
Slovak Rep.	15,760	45.8	35.1	54.5	36.5
United States	41,950	35.8	34.6	38.5	37.4
Average	**27,046**	**37.8**	32.4	**40.4**	**31.6**
Bigger governments					
Austria	33,140	51.5	47.4	56.0	48.2
Belgium	32,640	51.1	48.1	54.6	48.3
Denmark	33,570	57.2	55.5	60.6	50.7
France	30,540	50.8	50.5	54.9	53.0
Germany	29,210	46.0	44.3	48.4	44.3
Italy	28,840	47.6	48.4	56.4	48.4
Netherlands	32,480	52.9	45.7	55.7	45.7
Portugal	19,730	43.1	42.9	47.7	45.9
Sweden	31,420	64.7	56.7	72.4	53.8
United Kingdom	32,690	41.9	41.7	45.7	44.6
Average	**30,426**	**51.8**	**49.1**	**55.2**	**48.3**

* central government 1999

Sources: World Bank, *WDI*, 2007 tables 1.1 and *WDI* 1997, table 4.16; OECD *Economic Outlook 82*, December 2007 Annex tables 25, 26.

STATISTICAL ANNEX

TABLE 3: INVESTMENT AND EMPLOYMENT

	Gross Capital Formation		Gross Capital Formation		Employment	
	% of GDP		Average annual growth %		Average annual growth %	
	1990	2005	1990–2000	2000–05	1986–1995	1995–2005
Slimmer governments						
Australia	23	26	5.7	9.7	1.9	1.9
Canada	21	21	4.5	4.6	1.2	2.1
Estonia	30	32	0.2	11.6	n.a	n.a
Hong Kong	27	21	5.6	0.3	n.a	n.a
Ireland	21	25	n.a	n.a	1.7	4.1
Korea	38	30	3.4	3.2	3.1	1.0
Latvia	40	34	–3.9	16.7	n.a	n.a
Singapore	37	19	n.a	0.3	n.a	n.a
Slovak Rep.	33	29	7.9	5.2	n.a	0.0
United States	18	19	7.4	1.2	1.5	1.3
Average	**29**	**26**	**3.8**	**5.9**	**1.9**	**1.7**
Bigger governments						
Austria	24	21	n.a	n.a	0.5	0.6
Belgium	22	21	2.6	1.4	0.6	0.9
Denmark	20	21	n.a	n.a	–0.2	0.5
France	22	20	1.8	1.1	0.4	1.2
Germany	24	17	n.a	n.a	0.9	0.2
Italy	22	21	n.a	n.a	–0.5	1.2
Netherlands	23	19	3.2	–1.5	1.8	1.3
Portugal	27	22	10.6	0.3	1.2	1.1
Sweden	23	17	1.8	1.2	–0.8	0.8
United Kingdom	20	17	4.6	2.3	0.5	1.1
Average	**23**	**20**	**4.1**	**0.8**	**0.4**	**0.9**

Sources: World Bank, *WDI,* 2007, tables 4.8 and 4.9; OECD, *Economic Outlook 82,* December 2007 Annex Table 21.

TABLE 4: SOCIAL BENEFITS, INCOME DISTRIBUTION & GROWTH OF CONSUMPTION

	Government Spending on Social Benefits	Income Distribution Gini Index	Household Consumption Average annual % growth	
	% of GDP 2006	latest year	1990–2000	2000–2005
Slimmer governments				
Australia	10.3	35.2	3.6	4.2
Canada	8.9	32.6	2.6	3.2
Estonia	10.6	35.8	0.6	7.0
Hong Kong	6.3	43.4	3.9	1.9
Ireland	11.0	34.3	5.3	3.9
Korea	n.a	31.6	4.9	2.5
Latvia	8.2	37.7	–3.9	8.6
Singapore	2.4	42.5	n.a	3.3
Slovak Rep.	16.5	25.8	4.7	3.4
United States	12.0	40.8	3.6	3.0
Average	**9.6**	**36.0**	**2.8**	**4.1**
Bigger governments				
Austria	23.4	29.1	1.9	1.0
Belgium	22.4	33.0	1.8	1.1
Denmark	16.7	24.7	2.2	2.1
France	23.4	32.7	1.6	2.2
Germany	25.8	28.3	1.9	0.3
Italy	20.0	36.0	1.5	0.5
Netherlands	20.8	30.9	2.8	0.3
Portugal	18.8	38.5	3.0	1.4
Sweden	19.3	25.0	1.3	1.6
United Kingdom	12.9	36.0	2.9	2.9
Average	**20.3**	**31.4**	**2.1**	**1.3**

Sources: IMF, *Government Finance Statistics*, 2007, table W5; World Bank, *World Development Indicators,* 2007 tables 2.7 and 4.9.

STATISTICAL ANNEX

TABLE 5: SELECTED GOVERNMENT REVENUE CATEGORIES (PERCENT OF GDP) 2006

	Taxes on income, profits and capital gains	Social Contributions	Taxes on goods and services
Slimmer governments			
Australia	17.6	–	7.8
Canada	17.0	17.0	7.9
Estonia	7.1	10.3	9.6
Hong Kong	8.0	–	2.0
Ireland	12.9	6.2	n.a
Korea	n.a	n.a	n.a
Latvia	8.1	8.1	11.8
Singapore	6.0	6.0	4.7
Slovak Rep.	5.7	5.7	11.2
United States	13.5	13.5	4.5
Average	**10.6**	**7.4**	**7.4**
Bigger Governments			
Austria	12.4	16.0	11.8
Belgium	16.0	15.7	11.2
Denmark	29.3	1.9	16.3
France	10.8	18.3	11.1
Germany	12.1	17.3	10.1
Italy	14.0	13.0	12.5
Netherlands	10.7	15.1	12.3
Portugal	8.5	12.5	13.7
Sweden	19.3	12.9	12.6
United Kingdom	14.8	8.4	n.a
Average	**14.8**	**13.1**	**12.4**

Source: IMF, *Government Finance Statistics Yearbook,* 2007, table W4.

TABLE 6: GROWTH OF TRADE.

	Exports* Average annual growth %		Imports* Average annual growth %		Growth in real trade less growth in real GDP
	1990–2000	2000–05	1990–2000	2000–2005	1990–2005
Slimmer governments					
Australia	7.4	0.6	8.1	10.4	3.1
Canada	8.7	0.0	7.2	2.2	3.1
Estonia	11.2	8.1	12.0	9.6	7.2
Hong Kong	8.1	10.2	8.4	8.7	3.6
Ireland	15.7	4.7	14.5	3.0	6.4
Korea	16.0	12.1	10.0	9.4	6.1
Latvia	4.3	8.6	7.6	12.1	4.8
Singapore	n.a	n.a	n.a	n.a	n.a
Slovak Rep.	9.0	11.9	11.7	10.8	6.8
United States	7.3	0.3	9.8	3.9	3.9
Average	**9.7**	**6.3**	**9.9**	**7.8**	**5.0**
Bigger governments					
Austria	5.5	5.4	5.0	4.3	3.4
Belgium	4.7	2.8	4.5	2.8	2.2
Denmark	5.1	2.8	6.1	4.5	3.2
France	6.9	1.7	5.7	3.4	3.8
Germany	6.0	5.5	5.8	3.5	4.4
Italy	5.1	–0.8	3.8	0.8	1.7
Netherlands	6.8	3.7	6.6	3.4	3.5
Portugal	5.3	2.7	7.3	1.6	2.8
Sweden	8.6	4.8	6.3	2.9	4.1
United Kingdom	6.6	2.6	6.8	4.5	3.2
Average	**6.1**	**3.1**	**5.8**	**3.2**	**3.2**

* of goods and services

Source: World Bank, *World Development Indicators* ,2007 tables 4.9 and 6.1.

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TABLE 7: GOVERNMENT CONSUMPTION EXPENDITURE AND EMPLOYMENT LEVELS

	General government consumption expenditure Average annual % growth		Unemployment % of total labour force		Youth unemployment (15–24 year olds)	
	1990–2000	2000–2005	1990–92	2000–2005	Male 2000–05	Female 2000–2005
Slimmer governments						
Australia	3.0	3.4	10.5	5.4	11	10
Canada	0.3	3.0	11.2	7.2	14	11
Estonia	4.9	5.8	3.7	9.6	16	15
Hong Kong	3.3	1.4	2.0	6.8	14	8
Ireland	4.0	5.6	15.2	4.4	9	7
Korea	4.7	4.5	2.5	3.5	n.a	n.a
Latvia	1.8	2.2	n.a	8.7	12	14
Singapore	n.a	1.2	2.7	5.4	4	6
Slovak Rep.	2.9	3.1	n.a	18.1	30	29
United States	0.7	3.5	7.5	5.5	12	10
Average	**2.8**	**3.4**	**6.9**	**7.5**	**14**	**12**
Bigger governments						
Austria	2.5	1.0	3.6	4.9	11	10
Belgium	1.5	2.4	6.7	7.4	16	20
Denmark	2.4	1.4	9.0	5.2	9	9
France	1.4	1.8	10.0	9.9	22	24
Germany	1.8	0.1	6.6	9.8	16	14
Italy	–0.4	1.8	11.6	8.0	21	27
Netherlands	2.0	2.1	5.5	4.3	10	10
Portugal	2.8	2.0	4.1	6.7	14	19
Sweden	0.6	1.0	5.7	6.5	16	13
United Kingdom	1.1	3.5	9.7	4.6	13	10
Average	**1.6**	**1.7**	**7.2**	**6.7**	**15**	**16**

Source: World Bank, *WDI,* 2007 tables 4.9, 2.5 and 2.8.

TABLE 8:GOVERNMENT FINANCIAL BALANCES, LIABILITIES AND DEBT INTEREST PAYMENTS 1996 AND 2006

	General Government Financial Balances Surplus (+) or deficit (–) as a % of GDP		General Government Net Financial Liabilities % of GDP		General Government Net Debt Interest Payments % of GDP	
	1996	2006	1996	2006	1996	2006
Slimmer governments						
Australia	–2.4	1.2	21.1	–4.1	3.1	1.0
Canada	–2.8	1.0	70.0	26.5	5.3	0.9
Estonia	n.a	n.a	n.a	n.a	n.a	n.a
Hong Kong	n.a	n.a	n.a	n.a	n.a	n.a
Ireland	–0.1	2.9	42.5	1.7	3.1	0.0
Korea	3.4	3.0	–19.0	–35.2	–0.7	–1.0
Latvia	n.a	n.a	n.a	n.a	n.a	n.a
Singapore	n.a	n.a	n.a	n.a	n.a	n.a
Slovak Rep.	–9.8	–3.7	–18.0	4.0	0.7	–0.1
United States	–2.2	–2.6	52.9	43.9	3.4	2.0
Average	**–2.3**	**1.3**	**21.6**	**9.4**	**2.5**	**0.5**
Bigger governments						
Austria	–4.0	–1.5	47.2	37.8	3.4	2.1
Belgium	–3.8	0.2	115.3	74.9	8.1	2.8
Denmark	–1.9	4.7	36.2	2.7	3.7	1.1
France	–4.0	–2.6	41.8	38.2	3.1	2.3
Germany	–3.3	–1.6	33.7	48.8	2.9	2.4
Italy	–7.0	–6.5	104.3	92.4	10.5	4.0
Netherlands	–1.9	0.5	52.8	31.9	4.4	1.7
Portugal	–4.5	–3.9	27.3	42.6	5.1	2.8
Sweden	–3.4	2.3	27.0	–15.7	1.6	–0.4
UK	–4.1	–2.8	40.4	38.7	3.0	1.9
Average	**–3.8**	**–1.1**	**52.6**	**39.2**	**4.6**	**2.3**

Source: OECD, *Economic Outlook 82,* Annex tables 27, 31, 33.

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TABLE 9: HEALTH STATISTICS

	Health expenditure % of GDP		Physicians per 1,000 people		Life expectancy at birth (years)	
	1990–95	**2004**	**1990**	**2000–05**	**1990**	**2005**
Slimmer governments						
Australia	8.4	9.6	2.2	2.5	77	81
Canada	9.8	9.8	2.1	2.1	77	80
Estonia	n.a	5.3	3.5	3.2	69	73
Hong Kong	4.3	n.a	n.a	n.a	77	82
Ireland	7.9	7.2	2.0	2.8	75	79
Korea	5.4	5.6	0.8	1.6	71	78
Latvia	n.a	7.1	4.1	3.0	69	71
Singapore	3.5	3.7	1.3	1.4	74	80
Slovak Rep.	n.a	7.2	n.a	3.1	71	74
United States	14.3	15.4	1.8	2.3	75	78
Average	**7.7**	**7.9**	**2.2**	**2.4**	**73**	**78**
Bigger governments						
Austria	9.7	10.3	2.2	3.4	76	79
Belgium	8.2	9.7	3.3	3.9	76	79
Denmark	6.6	8.6	2.5	2.9	75	78
France	9.7	10.5	3.1	3.4	77	80
Germany	9.5	10.6	2.8	3.4	75	79
Italy	8.3	8.7	n.a	4.2	77	80
Netherlands	8.8	9.2	2.5	3.1	77	79
Portugal	7.6	9.8	2.8	3.3	74	78
Sweden	7.7	9.1	2.9	3.3	78	81
United Kingdom	6.9	8.1	1.6	2.2	76	79
Average	**8.3**	**9.5**	**2.6**	**3.3**	**76**	**79**

Source: World Bank, *WDI,* 2007, tables 2.14 and 2.20, and *WDI,* 1997 table 2.11.

TABLE 10: EDUCATION

	Public expenditure on education % of GDP		Primary pupil–teacher ratio Pupils per teacher		Tertiary education gross enrolment rate*	
	1995	**2005**	**1995**	**2005**	**1993**	**2005**
Slimmer governments						
Australia	5.6	4.8	16	n.a	49	72
Canada	7.3	5.2	16	n.a	52	60
Estonia	6.6	5.7	17	14	38	65
Hong Kong	2.8	4.2	24	18	21	31
Ireland	6.3	4.5	23	18	34	59
Korea	3.7	4.6	32	29	48	90
Latvia	6.3	5.3	14	13	39	74
Singapore	3.0	n.a	n.a	n.a	n.a	n.a
Slovak Rep.	4.4	4.4	24	18	28	36
United States	5.3	5.9	16	14	81	82
Average	**5.1**	**5.0**	**20**	**18**	**43**	**63**
Bigger governments						
Austria	5.5	5.5	12	13	43	50
Belgium	5.7	6.2	12	12	n.a	63
Denmark	8.3	8.4	10	n.a	41	74
France	5.9	5.9	19	19	50	56
Germany	4.7	4.7	18	14	36	n.a
Italy	4.9	4.9	11	11	37	63
Netherlands	5.3	5.3	19	n.a	45	59
Portugal	5.4	5.9	12	12	23	57
Sweden	8.0	7.5	11	10	38	84
United Kingdom	5.5	5.5	19	18	37	60
Average	**5.9**	**6.0**	**14**	**14**	**39**	**63**

* % of relevant age group

Sources: World Bank, *WDI,* 1998 table 2.9, *WDI* ,1997 table 2.8, and *WDI,* 2007 tables 2.9 and 2.10.

TABLE 11. DEFENCE, PUBLIC ORDER AND SAFETY

	Defence expenditure % of GDP		Armed Forces Personnel % of labour force		Public Order & Safety % of GDP
	1995	2005	1995	2005	2006
Slimmer governments					
Australia	1.9	1.4	0.6	0.5	1.7
Canada	1.6	1.1	0.5	0.4	2.0
Estonia	1.0	1.6	0.8	1.2	n.a
Hong Kong	n.a	n.a	n.a	n.a	1.7
Ireland	1.0	0.6	0.9	0.5	n.a
Korea	2.8	2.6	3.0	2.8	n.a
Latvia	0.9	1.7	0.9	0.5	2.2
Singapore	4.4	4.7	3.7	7.5	1.0
Slovak Rep.	3.2	1.8	2.1	0.7	1.8
United States	3.8	4.1	1.2	1.0	2.1
Average	**2.3**	**2.2**	**1.5**	**1.7**	**1.8**
Bigger governments					
Austria	0.9	0.7	1.4	1.0	1.5
Belgium	1.6	1.2	1.1	0.8	n.a
Denmark	1.7	1.4	1.2	0.7	1.0
France	3.0	2.5	2.0	1.3	n.a
Germany	1.6	1.4	0.9	1.7	1.6
Italy	1.7	1.8	2.6	1.8	n.a
Netherlands	1.9	1.6	1.0	0.7	1.8
Portugal	2.4	2.1	2.1	1.7	n.a
Sweden	2.3	1.6	2.2	0.6	n.a
United Kingdom	3.0	2.6	0.8	0.7	n.a
Average	**2.0**	**1.7**	**1.5**	**1.1**	**1.5**

Sources: World Bank, World Development Indicators 2007, table 5.7; and IMF, Government Finance Statistics Yearbook 2007, tables W3 and W6.

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With the OECD reporting that UK government expenditure is approaching 45% of GDP, it is widely assumed that the growth of the State is unstoppable; and that, in a developed economy, there is little or no scope for reducing the burden of taxation.

The evidence presented in this report, based on data from 20 leading countries, contradicts that assumption. By restraining tax and spending, the 'slim governments' analysed here have enjoyed much higher growth rates, have created more new jobs and have lower government debt. Importantly, this has not been at the expense of income distribution, nor has it curtailed funding for public services.

In fact, 'slim governments' have been able to increase funding for public services more generously, and have also spent more on law and order, and defence, than their 'fat government' counterparts.

So is it time for the UK government to go on a diet?