



Bursting the False Narrative

By Richard W. Rahn

ECONOMIC GROWTH SUFFERS FROM OVERSPENDING, NOT
UNDERTAXATION

At the end of this past week, The Washington Post ran a long story on the Center for Freedom and Prosperity (CFP), an organization that I have long supported. It appeared that the original goal was to do a hit piece on CFP because it had been a leader in the fight for global tax competition and smaller government.

The irony was that the authors of the story quoted a number of people from around the world, including people from the Organization for Economic Cooperation and Development (OECD), who support bigger government and higher taxes, to the effect that those at the CFP had been highly successful in blocking a number of their attempts to reduce tax competition and impose higher taxes. It seemed to stun The Washington Post's writers that only a couple of people with a tiny budget were able to stop major governments from even doing more of a tax-and-regulatory grab — mainly because the CFP only needed to effectively expose the facts and the truth, which they did.

Dan Mitchell, chairman of the board of CFP, quoted Michigan's former Democratic Sen. Carl Levin (1979 to 2015) as saying that

the CFP's "activities run counter to America's values and undermine the nation's ability to raise revenue." Note: During the time the senator was in office, federal tax receipts soared from \$463 billion to \$3.2 trillion — and he complained that was not enough, showing there is no limit to the greed on the left to spend other people's money, no matter how much economic and social damage it causes. Mr. Levin also appeared to not understand that the American Revolution began as tax revolt against the imposition of a tax by the British on Americans. The irony is that the Paris-based OECD — whose staff enjoy tax-free salaries — with the backing of the French and others is currently trying to increase the tax on American companies, with the ultimate goal of increasing taxes on individual American citizens because they pay somewhat less than the Europeans — all in the name of global tax "fairness."

How big should government be? Do you think you should be paying additional taxes to support more government programs? If you listen to National Public Radio and many of the media and political advocates for larger government, the common theme is that this or that government program is "under-resourced." No matter how much government spends, it is never enough.

The inconvenient truth is that there is an optimum size of government. As government grows larger as a percentage of gross domestic product (GDP), economic growth tends to slow. At some point, economic growth is so slow that despite high levels of taxation and spending, the long-term situation gets worse rather than better for most people. The United States has suffered wage stagnation under the Obama administration, even with a huge growth in government spending and regulation.

At the moment, all of the world's major developed economies are growing less than 2 percent, which is insufficient to produce a steady rise in the standard of living for most people. The economic sickness is caused by too much rather than too little government. The size of government relative to GDP in most countries has been

growing for decades. Among OECD countries (the club of rich, developed countries), it is now approaching an average of almost 50 percent. The United States is at 42 percent, still well above the optimum.

A number of studies have shown that for most countries the optimum size of government is probably around 25 percent of GDP. The studies do show some range of estimates, none that I am aware of going above one-third of GDP (roughly the level in Switzerland). For argument's sake, assume that the optimum is from 18 percent to 33 percent. Singapore and Hong Kong are about 18 percent, and again Switzerland is about 33 percent. All three entities have per capita incomes above those in the United States and are not resource-rich countries such as the petro-states. All have very high levels of life expectancy, which is a good proxy for the effectiveness of medical care, and no one is starving in their streets.

The fact that a country can have a high level of prosperity without having a big government that saps away opportunity and liberty is a narrative that the advocates of even more government hate. This can be seen in the unrelenting attacks on low-tax jurisdictions, which demand they increase taxes and share tax information with the less competitive.

All too many have forgotten President Reagan's famous line, "The government is not the solution, it is the problem." This was never truer than today. Governments around the world are crushing economic growth and opportunity, and destroying basic liberties. This will not change until knowledgeable people bust the false narrative that more government will make things better.

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