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AND THE SOLUTION IS: ADOPT GLOBAL BEST PRACTICES

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What is the optimum size of government as a percentage of GDP? And what is the optimum number of elected representatives per million people? At what point is the number of people represented by one elected official so large that effective democracy ceases to exist?

People throughout the world moan that "government is too big," yet the people voted for those who have made government too big. Occasionally, those in the majority realize they have made a mistake and they take steps to correct – Brexit being a current example. The British thought they had lost control over their own lives and government, which indeed they had. They were being micro-managed by non-British bureaucrats from afar – and finally they said, "Enough is enough, and damn the consequences of a pull out."

Legislative bodies spend billions of taxpayer dollars in large lumps that no one understands. The average taxpayer probably has some notion of how much a local school should cost, but not a warship or large hospital center. They do understand that most of their elected representatives also have no idea of how much most of things they spend taxpayer money on should cost. This disconnect only gets worse as there are fewer elected representatives for each dollar spent. The result is greater and greater alienation between the voters and the government.

Over the last 40 years, a number of researchers have looked at the optimum size of government as a percentage of GDP (I did my first paper on the subject in 1986). Optimum size can mean different things to different people. It can mean the point at which economic growth begins to slow because of government drag. It can mean the point at which social welfare on a per capita basis is no longer growing. Or it can mean the point at which the loss of liberty due to more government exceeds the benefits of paying for libertyenhancing activities such as a court system and protection of one's person and property. Most studies have shown that once government exceeds approximately a quarter of GDP, the negatives of more government exceed the positives.

Comparisons of one government to another are difficult because of endless definitional problems, and the fact that countries vary widely as to which activities are done by government rather than the private sector. See table 1.

SIZE OF GOVERNMENT RELATIVE TO GDP AND ECONOMIC FREEDOM

TABLE 1

Country	GDP Per Capita, PPP (Current Int. $)	Government Spending (% GDP)	Economic Freedom of the World (Rank)
Singapore	93,905	17.7%	2
Ireland	75,648	26.3%	5
Switzerland	64,712	33.0%	4
Hong Kong	61.540	17.3%	1
USA	59,532	34.8%	6

Sources: World Bank, IMF, Fraser Institute

As can be seen in Table I, some of the most successful countries, in terms of per capita income and other variables, have relatively small government sectors. France, for instance, has a government sector of about 50 percent of GDP, yet it has a real per capita income of only about two-thirds of that of the U.S. and far less economic freedom.

Singapore and Hong Kong have per capita GDPs higher than that enjoyed by the typical U.S. citizen, but spend relatively only half as much on government activities as in the U.S., with better outcomes in terms of life expectancy and educational attainment. It is correctly argued that these jurisdictions spend little on defense, unlike the U.S., but even adding another two to three percent of GDP on defense spending to bring them up to relative U.S. levels would still give them governments of only about 20 percent of GDP.

International organizations such as the OECD, IMF, and UN often argue that countries need to tax and spend more to cure whatever ills that are alleged to beset them. There are a few countries that are so poor and dysfunctional that they have governments too small to meet the necessities – but these are relatively rare cases. Again, international bodies frequently recommend that even countries with governments that exceed

20 percent of GDP, should tax and spend more. Such recommendations are close to economic malpractice, given that bigger government is more likely to add to problems rather than reduce them. The additional spending almost always occurs while the expected tax revenues often fall short, because the international experts consistently underestimate both the role of incentives and disincentives.

The result is the country is saddled with more debt, which becomes a future drag on economic growth.

One of the great curses of modern government is the tendency of the political class to spend more than tax revenues provide. The result is ever-growing debt burdens with a number of countries, such as the U.S., approaching net public debt burdens of 100 percent of GDP, and in a few cases, such as Japan and Italy, greatly exceeding it.

Fortunately, there are a number of democracies that so far have avoided burying themselves in debt, and thus can serve as best practice good examples. The Scandinavian countries all spend more of their GDP on government than is optimum, but even so have managed to be fiscally responsible in terms of adding to their debt burden. Denmark and Sweden are two best practice examples of responsible big government. Norway, with all of its oil reserves, has been running a huge budget surplus for decades, which they have put into a sovereign wealth fund to protect future generations. Norway may be the poster child for good behavior, while Venezuela, the country with the world's largest oil reserves, is the poster child for bad behavior. Table II gives some examples of best practices, and a couple of countries – the U.S. and Japan – as examples of bad practices. See table 2.

NET PUBLIC DEBT AS A % OF GDP

TABLE 2

Country	Debt, 2017 (% of GDP)
Australia	18.7%
Chile	4.4%
Denmark	15.2%
Hong Kong	0.0%
Korea (South)	11.4%
New Zealand	8.6%
Sweden	6.1%
United States	77.7%
Japan	154.9%

Source: IMF

The effect of large debt accumulation is to reduce the amount of productive capital investment available at lower interest rates. The lack of investment, in turn, reduces economic growth and real incomes for the majority.

Life expectancy is a good proxy for both the level and quality of medical services. The U.S. spends by far and away the highest percentage of its GDP on medical care, yet the outcome of all of that expenditure is, to say the least, disappointing. As with education, the U.S. does have the best the world has to offer in medical care, but some significant parts of the population do not receive it, or as too often the case, have such dysfunctional life styles that they fail to partake from what is offered. See table 3.

HEALTH CARE EXPENDITURE AS % OF GDP AND LIFE EXPECTANCY BY COUNTRY

TABLE 3

Country	Life Expectancy at Birth, 2016 (years)	Health Care Expenditure, 2015 (% of GDP)
Japan	84.0	10.9
Switzerland	82.9	12.1
Singapore	82.8	4.3
Spain	82.8	9.2
Australia	82.5	9.5
USA	78.7	16.8

Source: World Bank

Best practices are more common among smaller countries, perhaps because many of them are relatively homogenous and have more representative democracies. Part of the problem with very large democracies is the number of elected representatives remains relatively fixed while the population continues to grow. Each member of the U.S. House of Representatives now represents about 750,000 people. When the first apportionment bill took place in 1793, each House member represented about 37,000 people. For the next century, even though the population grew, the number of representatives also grew, but finally it was decided that the number was getting too large to manage and so representatives were capped at 435.

The U.S. has about 326 million people, so it is exceedingly difficult for any one person to be able to meet with their member of Congress if they are not very well connected, despite having the Constitutional right to present “grievances” to their elected representatives. See table 4.

NUMBER OF PEOPLE REPRESENTED PER LAWMAKER IN THE LOWER CHAMBER OF THE NATIONAL LEGISLATURE

TABLE 4

Country	Number of People per Representative
Iceland	5,533
Estonia	13,056
Australia	164,686
Japan	272,108
U.S.	747,184

Source: Pew Research Center

The Swiss may have come closest to solving the problem of how to give the average citizen a voice in a functional way that can be emulated by other countries. The Swiss understand that most of the functions of government that impact citizens' lives occur at the local level – schools, local roads and other transportation issues, police and fire services. For the most part, these decisions are made at the local level in small enough governmental units – communes – whereby the citizens actually know and interact with the elected representatives responsible for the governmental activities. Most other governmental functions are handled at the next level of government – cantons – and only a few matters are handled at the national level, such as defense and foreign policy. Major issues are subject to referendums with the requirement that not only a majority of voters to say "yes" but also a majority of the cantons.

Switzerland, like the U.S., is a federal republic, but the Swiss, unlike the U.S., have maintained a system where most political power and activities are at the local level.

The problems of control of government spending, taxing and regulation, debt management, education, medical care and citizen involvement have been largely solved in one country or another. Rather than being pessimistic and giving up on trying to improve the local, national, and global political situation, realize that there are answers. The wheel does not have to be reinvented, but those who are capable and willing to take on the mantle of leadership need to be pushed towards adopting the best practices from wherever in the world.

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