Williams de Broë

The Effects of Public Spending and Taxes on Economic Growth*

Introduction

My presentation discusses the effects of public spending - and the taxes required to finance it - on a country's economic performance, with special reference to the consequences for output growth. This topic is at the heart of the political debate in most countries. However, it is also arguably the most important issue in economics today. This is because the State is the largest player in contemporary economies, and governments often try to control via regulation that which they do not take in taxes.

The public sector has been so predominant in recent decades that it is easy to forget how much smaller the State was, even in the early 1960s. The political debate also tends to ignore the massive differences that exist between the extents of socialisation in otherwise similar economies. Thus, within the mature industrialised nations which make up the OECD area, general government outlays as a share of national output average 41¼%, but range from 29% in Korea to 59% in the case of Sweden. Even greater differences can be observed when countries such as China, which has a public spending ratio of below 20%, are taken into consideration.

Unfortunately, the extent to which the divergences in the size of government might explain the substantial international differences in performance - on jobs, as well as growth - is unlikely to be seriously discussed in the forthcoming UK general election debate. Mr Oliver Letwin's pledge that the Conservatives would match Labour's spending on health and education for their first two years in office, should they form the next government (Letwin (2004)), means that the next election is already in danger of being little more than a sham contest over the small change of the fiscal system. In particular, the differences between the major parties' spending plans seem so miniscule that they are almost certainly swamped by the likely margin of forecasting error.

---

*Panel contribution to the Institute of Economic Affairs conference on 19 May 2004. Other contributions are to be made by Professor Patrick Minford of Cardiff University Business School; Gabriel Stein of Lombard Street Research; and the Rt Hon Oliver Letwin MP, Shadow Chancellor of the Exchequer. David Smith (no relation), Economics Editor, *The Sunday Times* is to take the chair.

David Smith ☎ **+44 (0)20 7898 2402**

Fax ☎ **+44 (0)20 7410 9932**

e-mail: **david.smith@wdebroe.com**

The Increased Role of the State

The increased size of the State

The lack of serious political debate over spending and taxes is unfortunate. This is because the increase in the size of government has been the dominant feature of the twentieth century, both in Britain and elsewhere (see Table 1 below), and there are important issues of freedom, as well as economics, involved. The share of government spending in national output is difficult to measure with precision. However, it seems to have been under one-tenth in Britain in the late nineteenth century; between one-quarter and well under one-third in the inter-war period, when Keynes wrote his *General Theory*; and just under one-third in the late-1950s, when we "never had it so good".

Present ratios of public spending and taxes to national output

There was then a rapid rise in the spending share during the second half of the 1960s and the 1970s, followed by a levelling out in the 1980s and 1990s. The present government is now presiding over a rapid increase in the socialisation of the UK economy, however. The 2004 UK Budget Report implies that general government expenditure will account for 47¼% of Gross Domestic Product (GDP) in fiscal 2004-05, and general government receipts 44¼%, if GDP is properly defined to exclude indirect taxes and subsidies; and 41% and 38½%, respectively, if the officially preferred measure of GDP - which is gross of indirect taxes and subsidies - is used instead.

Instant *vs* Deferred Gratification

Increased government spending brings short-term pleasure, but long-term problems

The real debate over public spending is, arguably, not about economics at all, but about the extent to which one values instant gratification now, against the deferred benefits - in the form of the increased living standards, increased life chances, and lower structural unemployment - which would result from a more parsimonious approach in the immediate future. Politicians have notoriously high rates of time discount, but especially so when an election is looming. This contrasts with private citizens, who appear to be concerned not just with their living standards over their entire lifetimes, but with the welfare of future generations as well. Increased public spending is usually desirable to its immediate beneficiaries, a group that includes public employees. However, it also has to be financed, either through higher taxes and long-term borrowing, which drives up real interest rates; or by 'printing money', which can cause inflation. Higher taxes are burdensome for enterprise and discourage productive investment and the work ethic. And, there is widespread evidence that economies with large public sectors grow more slowly and suffer higher rates of long-term unemployment than those where this is not the case.

Some Existing Literature

The issues involved were examined in detail in Smith (2002-1). Subsequent papers by Graham Leach (2003), Ruth Lea (2004) and Vito Tanzi (2004) extend and update our 2002 paper. In addition, the rather tricky measurement issues involved are examined in more detail in two pieces written for the Institute of Economic Affairs (Smith (2002-2) and Smith (2002-3)).

Conclusions from Existing Research

I will now set out the key conclusions from this existing research:

The European public spending burden is now higher than in Hitler's Germany

- First, not only has there been a massive increase in the share of national output absorbed by the State in all the developed countries over the past century, but the ratio of public spending to GDP in many parts of Europe now exceeds anything attempted by Hitler or Mussolini in the late 1930s (Table 1, below). I will return to the parallels between today's highly interventionist European states and the pre-World War II Fascist regimes later.

Official figures tend to understate the tax and spending burdens

- Second, measuring the proportion of national output absorbed by the State is surprisingly problematic, however. The broad historic trends are clear. However, the precise quantification of the tax and spending burdens is extremely difficult, especially following the introduction of the new European Union Standard Accounts (ESA95) in the late 1990s, and a whole series of subsequent changes to the way the official figures are compiled. On balance, it looks as if the current official presentation noticeably understates the true resource costs of the public sector in Britain. One reason is that the officially preferred measure - of GDP at Market Prices - is gross of indirect taxes. This is despite the fact that there is no output stream associated with indirect taxes, which are almost entirely levied on private sector expenditure. A second distortion is that taxes paid directly to the European Union are not included in the UK tax figures, despite the fact that they account for some ½-¾% of GDP. A third, and well known, anomaly is the present Chancellor's treatment of tax credits as a negative tax, rather than the benefits that they most closely resemble. This reduces the UK tax and spending burdens by just under ½% of GDP.

Public spending has to be financed

- Third, the 'government budget constraint' means that public spending can only be financed in one of three ways: through taxation, long-term borrowing, or borrowing from the Central Bank, which then has to 'print money'. Few people believe the old fashioned Keynesian argument that budget deficits are stimulatory these days. This is because of:

1) Ricardian equivalence theory;

2) The evidence from simulations on macroeconomic models and international panel-data studies; and

3) The literature on what determines the success of official attempts at fiscal stabilisation (Giudice, Roeger, Turrini, and in't Veld (2003)).

Table 1: Ratios of Public Expenditure, including Transfers, to Money GDP at Market Prices (%)

	1870	1913	1920	1937	1960	1980	1990	2003
Australia	18.3	16.5	-	-	21.2	31.6	36.3	36.2
Austria	-	-	14.7	15.2	35.7	48.1	53.1	51.6
Belgium	-	13.8	-	21.8	30.3	58.6	53.4	49.7
Canada	-	-	13.3	18.6	28.6	38.8	48.8	40.1
France	12.6	17.0	27.6	29.0	34.6	46.1	50.7	54.4
Germany	10.0	14.8	25.0	42.4	32.4	47.9	44.4	49.4
Italy	11.9	11.1	22.5	24.5	30.1	14.9	54.4	48.5
Ireland	-	-	-	-	28.0	48.9	43.2	35.2
Japan	8.8	8.3	14.8	25.4	17.5	32.0	32.1	38.3
The Netherlands	9.1	9.0	13.5	19.0	33.7	55.2	54.8	48.6
Norway	3.7	8.3	13.7	-	29.9	37.5	52.8	48.4
Spain	-	8.3	9.3	18.4	18.8	32.2	43.4	39.3
Sweden	5.7	6.3	8.1	10.4	31.0	60.1	59.4	59.0
Switzerland	-	2.7	4.6	6.1	17.2	32.8	33.5	37.6*
The United Kingdom	9.4	12.7	26.2	30.0	32.2	43.0	42.2	42.8
The United States	3.9	8.1	7.0	8.6	27.0	31.8	36.5	35.8
Unweighted Average of Countries With No Missing Observations	7.7	10.9	18.1	23.7	29.8	41.4	46.8	47.1

Source: International Monetary Fund (IMF), including May 2000 *World Economic Outlook* (see especially IMF Table 5.4, page 172); and Organisation for Economic Co-operation and Development (OECD).

*1996 data. NB: The original Tanzi & Schuknecht data for 1990 have been updated and the figures for 2003 introduced using Annex Table 26 in the most recent OECD *Economic Outlook.* Unfortunately, there are some substantial discrepancies between the Tanzi & Schuknecht and OECD data for the overlap year of 1990, and the figures should be regarded as illustrative, rather than precise. We have dropped New Zealand from the comparison and not updated the Tanzi & Schuknecht data for Switzerland, because of these problems. The most important remaining break is the US, where the OECD figure for 1990 is 3.2 percentage points higher than the Tanzi & Schuknecht one.

All taxes destroy property rights, and have adverse 'second-round' effects, but the situation varies from tax to tax

- Fourth, increased taxes both destroy individual property rights, and have a wide range of adverse supply-side effects. All taxes discourage effort, risk taking and investment in physical, financial and human capital. However, there appear to be significant differences between the effects of the various taxes, and we know quite a lot about this as a result of international panel-data studies and simulations on macroeconomic forecasting models. The most economically injurious taxes appear to be the direct surcharges on employment, such as employers' National Insurance Contributions, while taxes on income and capital are the next most damaging, because of their adverse impact on saving and capital formation. Low proportional taxes on consumption seem to do the least harm, however. Some economists use the terms 'discriminatory' and 'non-discriminatory' to distinguish between the more harmful and the least damaging taxes, although this is arguably an excessive simplification. It must also be emphasised that it is by no means clear that increasing UK taxes from their present high levels will lead to an improvement, in contrast to a deterioration, in the government's financial position, ie once allowance has been made for the adverse 'second-round' effects of higher rates of tax on the private sector tax base and welfare payments. However, the situation varies with the tax concerned, and responsible discussants of the fiscal options have to get involved at this level of detail.

International panel-data studies confirm harmful growth effects

- Fifth, panel-data studies carried out over many years confirm that high public spending leads to reduced growth and, eventually, a much poorer population than would otherwise have been the case. Table 2 (below), which updates Table 7 in Smith (2002-1), shows some back-of-an-envelope calculations of the effects of increased government spending on economic growth, employing statistical estimates provided in Barro (1997) of the impact of public consumption on the growth performance of nations.

Table 2: Estimated Effects on Economic Growth from the Growth in Public Spending Since 1960

	Change in the Public Spending Burden 1960-2003 (%)	Estimated Impact on Annual Economic Growth (%)	How Much Higher Output Would have Been in 2003 with 1960 Spending Levels (%)
Australia	13.4	-1.8	117
Austria	11.2	-1.5	91
Belgium	20.8	-2.8	231
Canada	8.7	-1.2	66
France	18.9	-2.6	198
Germany	17.7	-2.4	177
Italy	17.2	-2.3	170
Ireland	5.2	-0.7	35
Japan	20.4	-2.8	224
Netherlands	14.1	-1.9	126
Norway	19.5	-2.7	208
Spain	19.1	-2.6	201
Sweden	27.7	-3.8	390
Switzerland	20.4	-2.8	224
United Kingdom	8.3	-1.1	62
United States	5.6	-0.8	39
Unweighted Average	**15.5**	**-2.1**	**145**

Source: Williams de Broë calculations; OECD and IMF, as quoted in footnote to Table 1. The Change in the Public Spending Burden has been 'break corrected' to allow for discrepancies in overlap years. However, the figures should be regarded as highly approximate only.

Quantifying the effects of public spending on growth

- Sixth, Professor Barro estimated that, other things being equal, each 1 percentage point rise in the share of government consumption in GDP was associated with a 0.14 percentage point retardation in the rate of growth of real GDP per head of population. The very large effects shown in the final column of Table 2 correspondingly reflect a combination of the big increases in the size of the typical public sector over the past forty-three years, and the power of compound interest over such a long period, rather than an extremely powerful negative effect from the spending burden on growth.

- Seventh, and more recently, researchers from the OECD carried out a 'panel-data' study using data for twenty-one OECD countries over the years 1971-98 (Bassanini and Scarpetta (2001)). This came up with a negative coefficient of 0.15, almost identical to Professor Barro's **negative** 0.14, when spending was considered in isolation. However, the OECD authors also found that spending had a coefficient of **plus** 0.19 but that taxes had a negative coefficient of 0.44, when spending and taxes were included separately. This implies that tax-financed expenditures have an overall negative impact on growth of 0.25 percentage points, and suggests that Barro's coefficient, and the estimated costs given in Table 2, if anything, may be underestimates. Finally, Table 3 (below), which corresponds to Table 7 in the OECD study, but deals with the level of, rather than the rate of growth in, real GDP *per capita*, helps explain why Gordon Brown's tax-and-spend policies have not done more damage to Britain's growth rate. In particular, it looks as if the once-and-for-all gains from the move towards the lower and more stable inflation that resulted from the granting of operational independence to the Bank of England have offset the adverse consequences of the rising UK tax burden so far. However, these one-off gains have probably now been exhausted as far as future growth prospects are concerned.

OECD study suggests that the boost to UK growth caused by lower and more stable inflation, following the setting up of the MPC, has offset the retarding effects of higher taxes so far

Table 3: Estimated Impact of Changes in Institutional or Policy Factors on GDP Per Capita[1]

Variable	**Impact on Output Per Working-Age Person (%)[2]**		
	Effect Via Economic Efficiency	**Effect Via Investment**	**Overall Effect**
Inflation Rate (Fall of 1% Point)		0.4 to 0.5	0.4 to 0.5
Variability of Inflation (1% Point Fall in Standard Deviation of Inflation)	2.0		2.0
Tax Burden[3] (Increase of 1% Point)	-0.3	-0.3 to -0.4	-0.6 to -0.7
Business Research & Development Intensity[3] (Increase of 0.1% Points)	1.2		1.2
Trade Exposure[3] (Increase of 10% Points)	4.0		4.0

Source: *The Driving Forces of Economic Growth: Panel Data Evidence for the OECD Countries*, OECD Economic Studies No.33, 2001/II.

1. The values reported in this table are the estimated long-run effects on output per working-age person of a given policy change. The range reported reflects the values obtained in different specifications of the growth equation.

2. The direct effect refers to the impact on output *per capita* over and above any potential influence on the accumulation of physical capital. The indirect effect refers to the combined impact of the variable on the investment rate and, by that channel, on output *per capita*.

3. In percentage of GDP.

- Eighth, research carried out by Tanzi and Schuknecht (2000) for a wide range of countries, and looking at data back to the late nineteenth century, suggests that State spending need be no higher than one-third or so of market-price GDP - as recorded in the UK in the late 1950s, for example - in order to achieve most of the important social and political objectives which justify government intervention. There appear to have been few social gains to offset the loss of potential output associated with the rise in the public spending and tax burdens in most Western economies since the early 1960s, and almost all members of society, including the relatively poorest, have been made worse off as a result. Indeed, the harm done by lower growth in living standards has probably exceeded the social gains from increased public spending, even in areas such as health, where improved living conditions are often more important than medical advances.

The optimal size of the public sector appears to be around one-third of national output, much lower than in modern Britain

- Ninth, there are numerous explanations of why the share of public spending in GDP appears to continue rising, and be far higher than the optimal level at which the marginal utility derived from extra spending exactly corresponds to the marginal loss of utility to the taxpayer, stemming from the need to pay for it. However, the breakdown in the relationship between representation and taxation - now that a minority of the electorate pays a disproportionately large share of the costs and many voters simply take from the State - appears to be an important factor.

Breakdown of link between taxation and representation

- Tenth, one growth-retarding action that the present government has taken as a matter of deliberate policy is to transfer resources from the high- to the low-productivity areas of the economy. This process has been designed to buy the support of Labour's 'heartlands' and has had two dimensions. The first is the shift from the more productive private sector into public provision. The other is the transfer of resources from the most productive regions of Britain to the less productive ones. The latter process has been facilitated by the serious 'money illusion' that prevails in the present onerous and over centralised UK tax system. In particular, UK tax thresholds make no allowance for the wide differences in living costs - and propensities to be gainfully employed - in the different regions of the UK. For example, money GDP per filled job in London is 35¼% higher than that in the north-east, while GDP per head of population is 77¼% higher, since far more Londoners actually work. At the same time, living costs (excluding owner-occupied houses) are 12% higher in London than the north-east, while the average house costs more than twice as much. Such regional discrepancies mean that the tax system is doing serious 'real' injustice to the inhabitants of expensive and productive areas, in the same way as Portugal's tax bands would if imposed on Germany. This basic unfairness may be one cause of the incipient tax revolt now being stimulated by bodies such as the *TaxPayers' Alliance* (**www.taxpayersalliance.com**). There is a risk that it could result in a situation after a close election in which Labour is relying on the devolved regions of Scotland and

The 'West Lothian' question could return to haunt the UK's present constitutional arrangements, if there is a tax revolt in England

Wales to stay in office, despite having achieved a minority of the popular vote in England. The centripetal pressures arising from Labour's fiscal favouritism seem likely to eventually lead to the emergence of an English tax-revolt party along the lines of Italy's Northern League.

New Labour and Old Fascist Economics

Capitalism, socialism, and the mixed economy

As previously mentioned, there appear to be some disturbing similarities between the present highly interventionist Continental European and New Labour approaches, and the economic systems of the pre-War Fascists. However, it must be emphasised right from the start that this discussion is solely concerned with the question of economic systems, **not** the poisonous racial ideology that was so important to the German Nazis (but not the Italian Fascists in their early years). Pure free-market capitalism of the sort that came close to prevailing in the nineteenth century can be regarded as a system in which the owners of human, physical and financial capital can do what they like with their resources and are free to allocate the returns from their enterprise and endeavours as they see fit. Pure socialism is a system in which all the means of production are expropriated and controlled by the State, and the government decides how the resulting output is allocated between the consumption of individuals, capital formation and direct public expenditure. An old-fashioned mixed economy, such as Britain in the 1950s, is one in which the ownership of capital and the production process are generally left to market forces but a proportion of the ensuing output is creamed off - preferably in the form of non-distortionary flat-rate taxes - to support wider social goals.

New Labour is attempting to control the returns from the factors of production

New Labour's so-called 'third way', and the prevalent economic paradigm in much of 'Old Europe', appears to correspond to none of these alternatives. Instead, it appears to be a system under which the private sector maintains nominal legal control over its capital and labour, but the returns on these factors of production are so heavily influenced by tax and regulation that the public sector ends up effectively controlling them. This sham form of mixed economy has traditionally been associated with Fascist regimes - for example, the bureaucratised *gelenkte Wirtschaft* (the supple or 'joined-up' economy) that Göring implemented in Nazi Germany in 1936. Such systems tend to be popular with politicians and bureaucrats because they force all sectors of society to keep on good terms with the State and its functionaries, if they are to remain in business. Such 'third-way' economies also seem capable of generating quite good growth in their early years, when GDP is being boosted by its public spending component. However, they eventually start to seize up for two main reasons:

1) Investors and entrepreneurs become aware that regulatory and tax changes that affect their private returns are expropriating their capital and they cease to invest or take risks. This is now a serious

danger with many of the regulated utilities in the UK, and might also explain Britain's relatively poor stock-market performance since May 1997 (Littlewood (2004)).

2) Regulations and controls create inefficiencies, which in turn lead to more regulation and control, until the whole system jams up to the point at which deregulation becomes essential if the system is to survive. This can be seen from the success of Speer's 'big bang' deregulation of the German economy in 1944, for example, which meant that Germany produced twice as many Messerschmitt fighters in 1945 than in 1942. However, there is plenty of more recent, if less dramatic, evidence - from the *Reformstau* now gripping Continental Europe, to the adverse effects of India's 'licence Raj' on the sub-Continent's growth rate, or previous UK experience - to demonstrate that New Labour's policies are more likely to slow economic growth than to accelerate it.

Closing Remarks

Bourgeois liberal capitalism as the handmaiden of liberty

I have now strayed a long way from economics. However, Milton Friedman once remarked that he supported liberal-market capitalism because it was the best guarantor of personal liberty, rather than personal liberty as the best guarantor of free-market capitalism. The fact that Gordon Brown has slowly and surreptitiously imposed his own version of the *gelenkte Wirtschaft* on Britain should not conceal the fact that New Labour's micro-management of the economy is now emerging as a serious threat to the most basic personal freedoms; as are Labour's deliberately half-baked constitutional reforms, which have removed almost all the checks and balances on the absolute power of the executive arm of government; plus the politicisation of government information (including economic statistics); and the worrying tendency to give police-style powers to essentially unaccountable delegated arms of government, such as regulators and tax inspectors (for a former Prime Minister's view on these matters, see: Major (2003)).

Growth maximisers *vs* redistributionists

However, the fact that the economic consequences of Labour policies are not the main reason for objecting to them does not mean that a proper cost-benefit analysis of the long-term opportunity costs of New Labour economic policies would not produce a damning balance sheet. Thus, the deceleration in the growth of Britain's non-oil real GDP per worker from 2.3% each year during Mr Major's administration (1990-1997) to 1.6% each year under New Labour, had already built up to be the equivalent of 4% of national output by 2003; while the full adverse consequences are probably still accumulating due to the time lag involved for aggregate supply to adjust to Labour's highly distortionary structure of post-tax and post-regulation incentives. In cash terms, the lost potential GDP was equivalent to some £39bn last year, a shortfall that could have cost the government some £16bn in revenues if the foregone GDP had been taxed at the same rate as the rest of the economy. Such calculations suggest that the real political debate in Britain should be one between the 'growth maximisers', who ultimately want to constrain the share of public spending in national output until it is, say, some 7½ percentage points below today's level - which would put Britain on a par with such relatively successful economies as the US, Ireland and Australia - and the Brownian 'redistributionists', who would rather achieve equality of misery in a poor, static and heavily controlled society.

Lessons from Ireland, and the early 1950s Churchill administration

Anyone who believes that planning to cut the share of national production devoted to public spending in this way represents a hopeless pipe dream, should consider the Republic of Ireland, where the share of government outlays in national output has fallen from just under 54% in 1986, to 35¼% last year; and the rate of economic growth has left other European Union members in the shade. In addition, we believe that modern Conservatives could learn from the way in which the early 1950s Churchill administration, and its Chancellor 'Rab' Butler, managed to implement so smoothly the 'bonfire of controls' that paved the way for Britain's mini-*Wirtschaftswunder* between 1952 and 1962, after which policy took a more interventionist turn under the two 'Red' Harolds, MacMillan and Wilson. With hindsight, the policies implemented by Churchill and Butler look like an anticipation of what subsequently became known as 'supply-side' economics. Churchill and Butler also managed to introduce ambitious reforms that were comparable to Lady Thatcher's, with rather less fuss, and there may be lessons here for future Conservative governments.

Improving the links between representation and taxation

The other issue a potential Conservative administration ought to think about is how to improve the linkage between representation and taxation, in order to stop the productive members of society being plundered by the State dependent. Suggested solutions to the problems caused by the non-correlation of representation and taxation in today's Britain are:

1) To make the maximum possible use of flat-rate proportionate taxes, which are economically optimal in any case;

2) To try and reinstate the Beveridge insurance principle, so that there is again a perceived link between contributions and benefits (Lawlor (1998));

3) To contemplate the introduction of a more federal approach to setting tax rates, possibly modelled on that of the Swiss cantons; and,

4) To try and reverse the growth in means-tested benefits, which provide serious disincentives to the frugal and honest, in favour of the profligate and the fraudulent, and risk turning the entire population into State-dependent Hayekian serfs, while leaving the political and bureaucratic classes as an effective State-funded aristocracy, both in work and, even more, in retirement.

References

Barro, RJ (1997), *Determinants of Economic Growth: A Cross Section Empirical Study*, MIT Press, Cambridge, Massachusetts, USA.

Bassanini, A and Scarpetta, S (2001) *The Driving Forces of Economic Growth: Panel Data Evidence for the OECD Countries*, OECD *Economic Studies,* No. 33, 2001/II.

Giudice, G; Roeger, W; Turrini, A; and in't Veld, J (2003) *The Real Effects of Budgetary Adjustments,* DG ECFIN, European Commission, Brussels.

Lawlor, S (1998) *Beveridge or Brown? Contribution and Redistribution: The Real Social Security Debate,* Politeia, 22 Charing Cross Road, London WC2H 0QP (**www.info@politeia.co.uk**)

Lea, R (2004), *The Price of the Profligate Chancellor: Higher Taxes to Come,* Centre for Policy Studies, 57 Tufton Street, London SW1P 3QL (**www.cps.org.uk**).

Leach, G (2003), *The Negative Impact of Taxation on Economic Growth: New Edition,* Reform, 45 Great Peter Street, London SW1P 3LT (**www.reformbritain.com**).

Letwin, O (2004), *Avoiding Labour's Third Term Tax Rises: Speech to the Bow Group Outlining The Conservatives Medium Term Expenditure Strategy (***www.conservative-party.org.uk**)

Littlewood, J (2004), *The Stock Market Under Labour: For New Labour Read Old,* Centre for Policy Studies, 57 Tufton Street, London SW1P 3QL (**www.cps.org.uk**).

Major, J (2003), *The Erosion of Parliamentary Democracy,* Centre for Policy Studies, 57 Tufton Street, London SW1P 3QL (**www.cps.org.uk**).

Smith, DB (2002-1) *Is High Public Spending Good or Bad for You?* Williams de Broë plc. London.

Smith, DB (2002-2), *How High Is Tax? How Big Is Spend?* in Warburton P (Ed.) *IEA Yearbook of Government Performance 2002-03,* Institute for Economic Affairs, London.

Smith, DB (2002-3), *When Is Britain's Tax-Freedom Day?* IEA Economic Affairs, December 2002, Institute for Economic Affairs, London.

Tanzi, V and Schuknecht, L (2000), *Public Spending in the 20th Century: A Global Perspective,* Cambridge University Press.

Tanzi, V (2004-forthcoming), *The Economic Role of the State in the 21st Century*, Politeia, 22 Charing Cross Road, London WC2H 0QP (**www.info@politeia.co.uk**)

Williams de Broë Plc

A Subsidiary Company of ING

P.O. BOX 515, 6 BROADGATE, LONDON EC2M 2RP. TELEPHONE: +44 (0)20 7588 7511 FACSIMILE: +44 (0)20 7588 1702

(REGISTERED OFFICE. REGISTERED IN ENGLAND NO.2412739)

MEMBER OF THE LONDON STOCK EXCHANGE AND INTERNATIONAL SECURITIES MARKET ASSOCIATION