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Learning from Ireland's reforms

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Guest Columnist

Despite some tax cuts, the size of the U.S. government has increased rapidly under President Bush and the Republican-controlled Congress.

Washington leaders looking to improve the economy could learn a lesson or two from Ireland, which has consistently had high rates of growth over the last decade by successfully slashing government spending.

Under the Republican Congress during Clinton's years in office, spending jumped from \$1.46 trillion to approximately \$1.74 trillion — an increase of just under \$300 billion.

Most of the 300 agencies that the House Budget Committee listed as "unnecessary" in 1995 — those that were supposed to be "phased out" — actually received increases in federal funding by 2000. Some, such as the Department of Commerce, saw budgets increase more than 41 percent.

Despite strong rhetoric leading up to the 2000 election, pairing a Republican president with a Republican Congress has done nothing to reverse this trend.

Spending has actually increased more rapidly under Bush than it did under Clinton. Total real discretionary outlays during Bush's first three years have increased 18 percent.

Post-9/11 spending is not the only cause driving the spending increases.

Nondefense discretionary spending has increased by 20.8 percent. The departments that saw the biggest increases include Labor (15 percent), State (32.5 percent) and Veterans Affairs (29.4 percent).

Two departments that were on the original list of "unnecessary federal agencies," the Department of Education and the Department of Commerce, have seen their budgets increase by 60.8 percent and 9.6

percent respectively during Bush's first three years.

Tax cuts alone do not mean less government or more economic freedom. All government spending must be taken from private-sector wealth. When spending increases, the sphere of private-sector economic activity decreases.

Government spending must be paid for by borrowing, inflating, or taxing.

Cutting taxes while increasing spending only changes the avenue through which private-sector activity — the mainspring of economic growth — is crowded out, while real resources are consumed by the government.

Real economic growth is promoted by slashing the size and role of government in the economy. Ireland's recent growth has shown just how successful this approach can be. After years of high spending, taxing, inflating, and deficits, the Irish government was confronted with a fiscal crisis in 1986.

To solve their budget problems they made dramatic cuts in government spending.

In 1986, Ireland slashed spending in areas such as health expenditures (6 percent), education (7 percent), agricultural spending (18 percent), roads and housing (11 percent), and the military (7 percent), and completely abolished other agencies, such as the National Social Services Board, the Health Education Bureau, and regional development organizations. In 1987 Ireland followed those moves up with the largest budget cuts in 30 years.

Overall current spending was cut 3 percent and capital spending was slashed by 16 percent. Over a five-year period Ireland dramatically decreased the size of its government in the economy. Government noninterest spending declined to 41 percent of GNP by 1990; down from a high of 55 percent of GNP in 1985.

Following the dramatic cuts in govern-

ment spending Ireland began reducing taxes on both individuals and corporations. They were able to do this while keeping inflation low and actually reducing government debt with surplus funds. The reduction in government spending and freeing of the Irish economy produced miraculous results. Over a 13-year period, Ireland's standard of living rose from 63 percent of the United Kingdom's in 1987 to best Britain's per capita income by 2000. Yearly economic growth rates averaged higher than 9 percent from 1995 through 2000.

The important lesson from Ireland is that dramatic improvements in living standards can come from increasing economic freedom. While Ireland's cuts were impressive compared with the ever-growing government budgets in the United States and most of Europe, they should not be confused with the achievement of a purely free-market economy. Ireland is not even the world's freest economy today. That honor belongs to Hong Kong, which has ranked first in the Fraser Institute's Economic Freedom of the World Annual Report for all years measured since 1970.

Ireland's economic growth record is a tribute to the results that can be achieved by even modest increases in economic freedom. The growth rates in Ireland are only the beginning of what even freer markets could generate.

While the United States would be well advised to stop increasing the size and scope of its federal government and move in the direction of Ireland's reforms, we could achieve even more if we went beyond them. That will require a fundamental reassessment of what role a government has in a free society.

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