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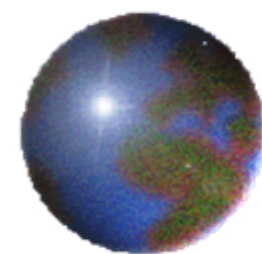
2024
TAX
ANNUAL
SUMMIT

Comparación y contraste del gasto público y la corrupción.
Dan Mitchell



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Government Spending and Corruption

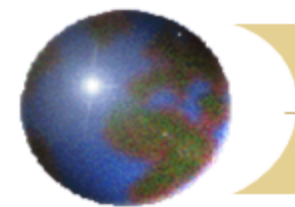
Dan Mitchell

November, 2024



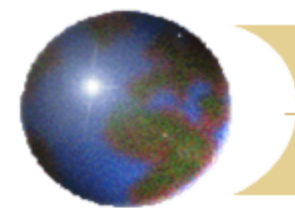
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Fiscal Equation

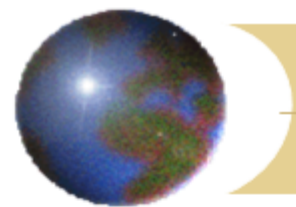
- ⊕ Government budget is how much the government spends.
 - ⊞ On roads, military, education, hospitals, welfare, pensions, etc.
- ⊕ Government spending is financed by:
 - ⊞ Taxes
 - ⊞ Borrowing
 - ⊞ Printing money



Government and Growth

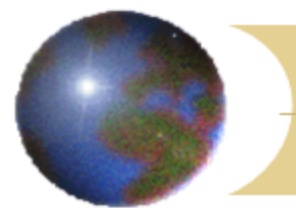
- ✦ General (macro) problems with all forms of government spending:
 - ✦ Government spending has to be financed by taxes, borrowing, and/or printing money (extraction cost).
 - ✦ Government spending diverts labor and capital from other uses (displacement cost).





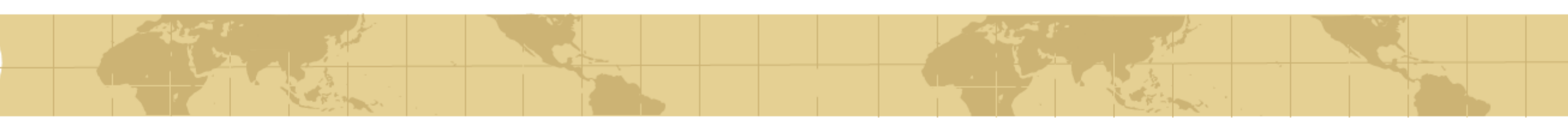
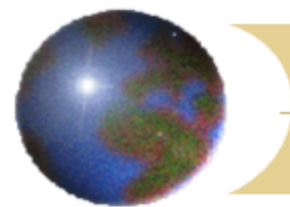
Government and Growth

- ✦ Specific (micro) problems with various forms of government spending:
 - ✦ Bureaucracies may have small budgets, but they impose large burdens on the economy (negative multiplier cost).
 - ✦ Redistribution programs encourage sloth (behavioral subsidy cost).
 - ✦ Redistribution programs discourage savings (behavioral penalty cost).



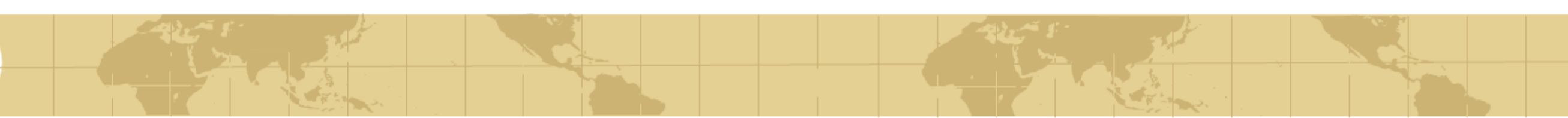
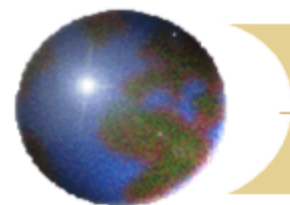
Government and Growth

- ➊ More specific (micro) problems with various forms of government spending:
 - ⊠ Government programs undermine the role of prices (market distortion cost).
 - ⊠ Government provides services in ways that are costly (the inefficiency cost).
 - ⊠ Government programs are rigid and bureaucratic (the inertia cost).



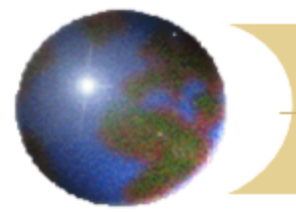
The Right Size of Government

- ✦ There are certain core functions of government - including national defense, legal system, and public safety.
- ✦ The more governments stray from these core functions, the less likely they are to be competent in any area.
- ✦ The more governments stray from these core functions, the higher the tax burden.
- ✦ This means less growth.



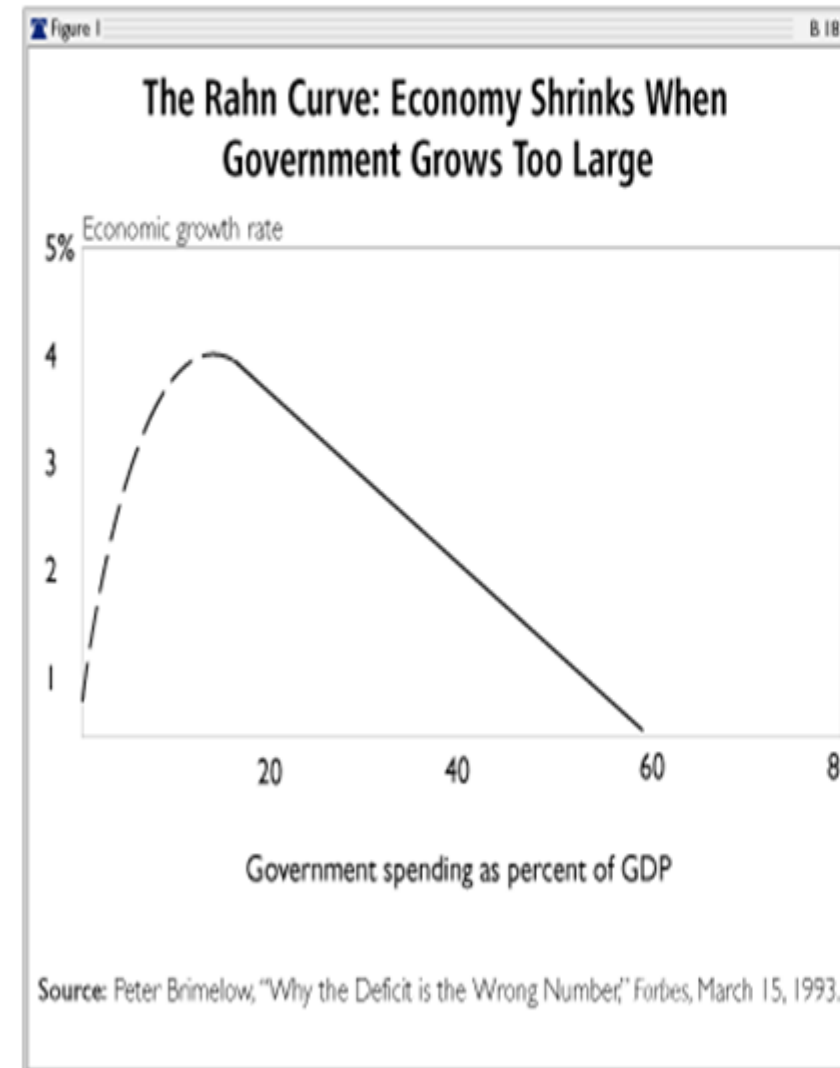
Government Spending and Growth

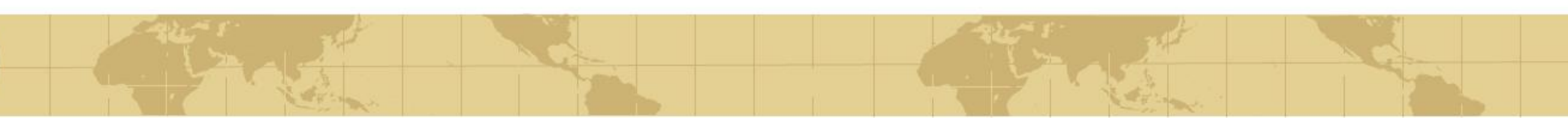
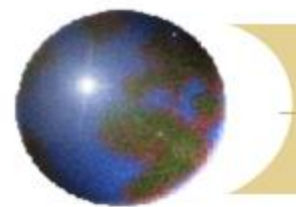
- ✦ If government spending is zero, presumably there will be very little economic growth.
 - ✦ No contracts get enforced.
 - ✦ No property rights are protected.
 - ✦ No rule of law.
- ✦ Government spending reduces growth, however, when the public sector becomes too large.
 - ✦ Punitive tax rates.
 - ✦ Misallocation of labor and capital.



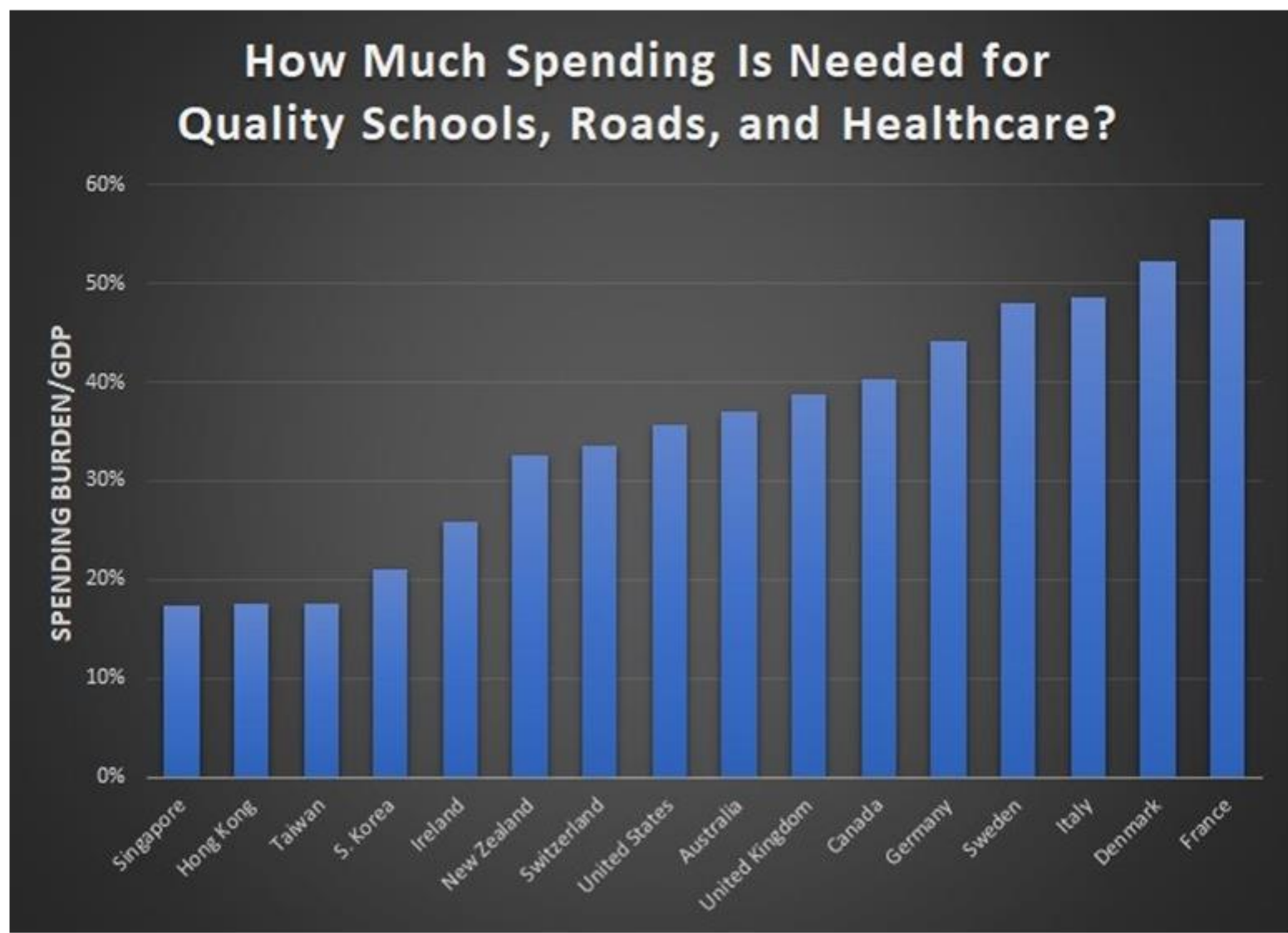
The “Rahn Curve”

- There is a “Rahn Curve” relationship between government spending and economic growth similar to the “Laffer Curve” relationship between tax rates and tax revenue.



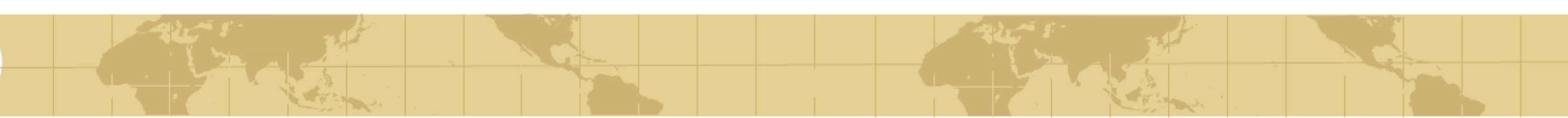
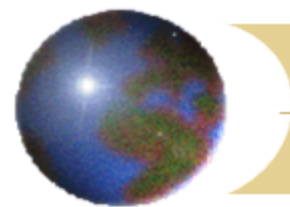


How Much Spending Is Needed for Quality Schools, Roads, and Healthcare?



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Burden of Government Used to be Small

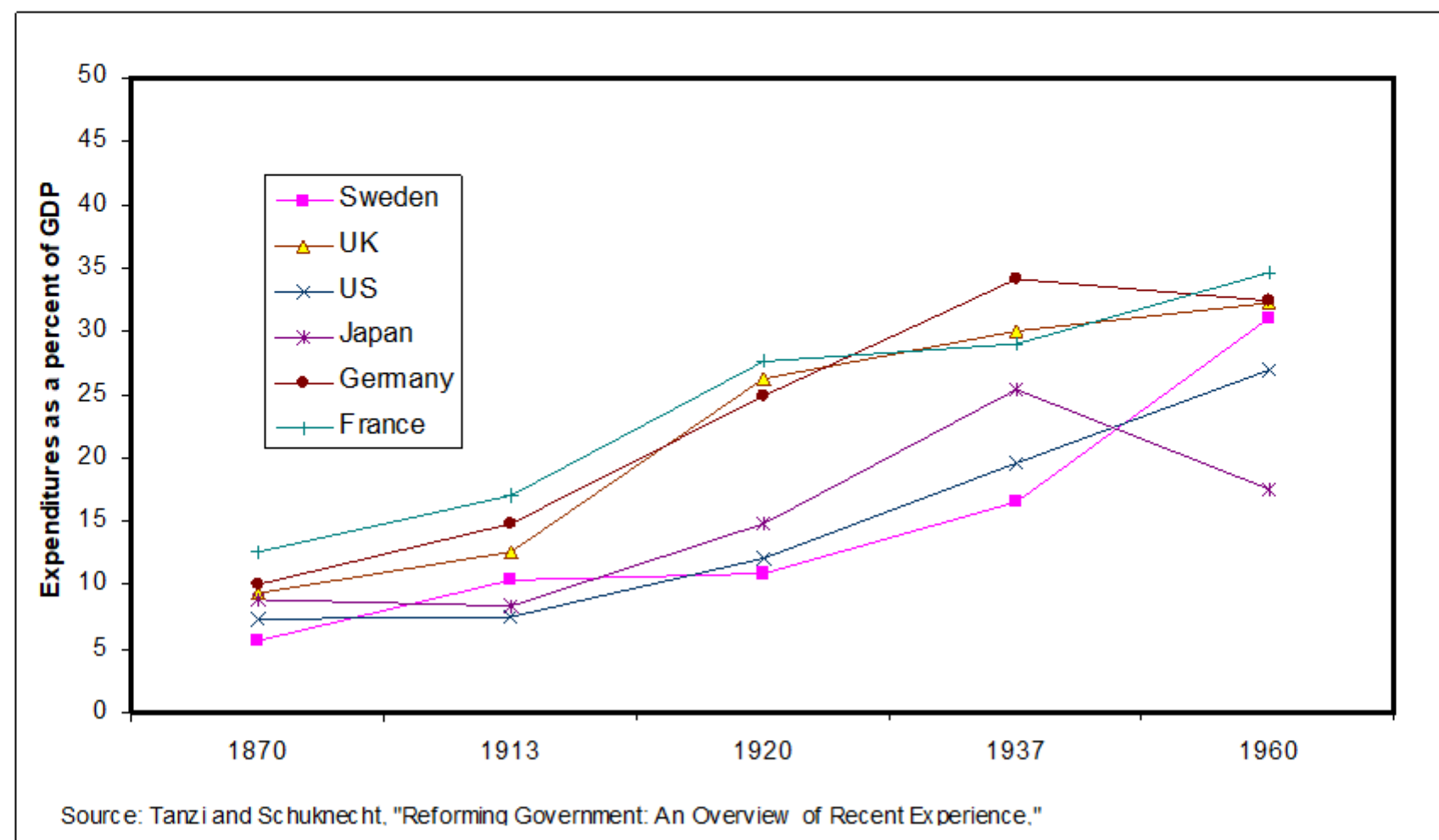




Table 1: Social Transfers as a Percentage of GDP at Current Prices in Select OECD Countries, 1880 to 1995

Country	1880 ^a	1890 ^a	1900 ^a	1910 ^a	1920 ^a	1930 ^a	1960 ^b	1970 ^b	1980 ^c	1980 ^c	1995 ^c
Australia	0	0	0	1.12	1.66	2.11	7.39	7.37	12.79	10.90	14.84
Austria	0	0	0	0	0	1.20	15.88	18.90	23.27	23.43	21.39
Belgium	0.17	0.22	0.26	0.43	0.52	0.56	13.14	19.26	30.38	22.45	27.13
Canada	0	0	0	0	0.06	0.31	9.12	11.80	14.96	12.90	18.09
Denmark	0.96	1.11	1.41	1.75	2.71	3.11	12.26	19.13	27.45	26.44	30.86
Finland	0.66	0.76	0.78	0.90	0.85	2.97	8.81	13.56	19.19	18.32	31.65
France	0.46	0.54	0.57	0.81	0.64	1.05	13.42	16.68	22.55	22.95	26.93
Germany	0.50	0.53	0.59			4.82	18.10	19.53	25.66	20.42	24.92
Greece	0	0	0	0	0	0.07	10.44	9.03	11.06	8.67	14.43
Ireland						3.74	8.70	11.89	19.19	16.20	18.30
Italy	0	0	0	0	0	0.08	13.10	16.94	21.24	17.10	23.71
Japan	0.05	0.11	0.17	0.18	0.18	0.21	4.05	5.72	11.94	10.48	12.24
Netherlands	0.29	0.30	0.39	0.39	0.99	1.03	11.70	22.45	28.34	26.94	25.70
New Zealand	0.17	0.39	1.09	1.35	1.84	2.43	10.37	9.22	15.22	16.22	18.64
Norway	1.07	0.95	1.24	1.18	1.09	2.39	7.85	16.13	20.99	18.50	27.50
Sweden	0.72	0.85	0.85	1.03	1.14	2.59	10.83	16.76	25.94	12.97	19.01
Switzerland	...	...	...	...	...	1.17	4.92	8.49	14.33	...	18.87
UK	0.86	0.83	1.0	1.38	1.39	2.24	10.21	13.20	16.42	11.43	13.67
United States	0.29	0.45	0.55	0.56	0.70	0.56	7.26	10.38	15.03	21.36	22.52

Source: Lindert (2002); OECD (1985)

0 = known to be zero. Blank = not yet a sovereign state. ... = known to be positive, but number is not available.

^a Welfare, unemployment, pensions, health, and housing subsidies.

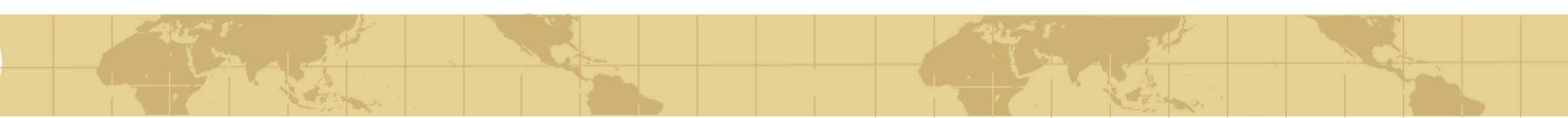
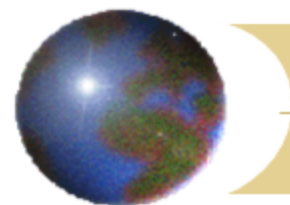
^b OECD old series.

^c OECD new series



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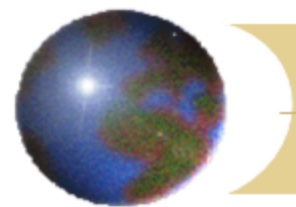
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What About Wealthy Welfare States?

- ✦ Aren't many European welfare states relatively wealthy?
- ✦ Yes, but they became rich when government was very small.
- ✦ Once big welfare states were adopted (1960s and 1970s), growth weakened.
- ✦ A nation can tolerate weak growth once it is rich, but a poor nation will never become rich with weak growth.

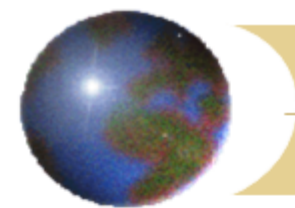




Bad Governments - Governance

- ✦ Only 83 out of 210 nations are rated as free according to Freedom House.
- ✦ Only 36 out of 180 nations get a passing grade from Transparency International.
- ✦ Only 35 out of 208 nations have a rule-of-law rating above 1.0 (on a -2.5 to +2.5 scale) from the World Bank.

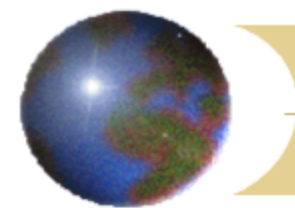




Bad Governments – Policy

- ✦ Only 42 out of 165 nations are considered economically free by the Fraser Institute.
- ✦ Only 26 out of 176 nations are considered free or mostly free by the Heritage Foundation.
- ✦ What about measures of long-run fiscal sustainability?

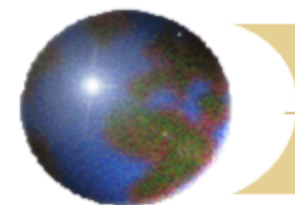




Understanding “Public Choice”

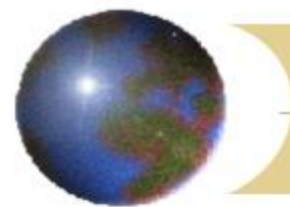
- ✦ Professor James Buchanan won a Nobel Prize for developing “public choice” analysis, pointing out that politicians try to maximize votes and power.
- ✦ He called it “politics without romance.”
- ✦ A core insight is that politicians put personal ambition above the national interest.





Public Choice and Corruption

- ✦ Another core insight from public choice is that corruption often is legal.
 - ✦ Interest groups give money to politicians.
 - ✦ Politicians reward interest groups with special favors.
 - ✦ Ordinary voters suffer, but usually not enough to get outraged (concentrated benefits vs. diffused costs)



When buying and selling are controlled by
legislation, the first things to be bought and sold
are legislators.

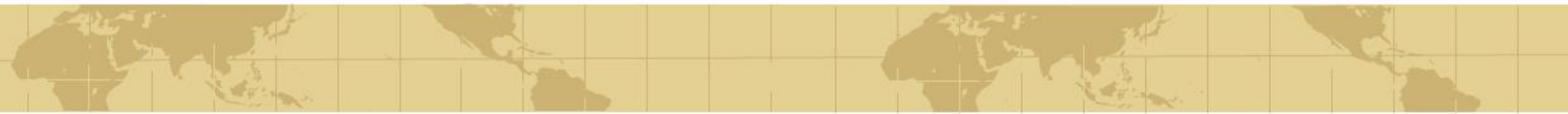
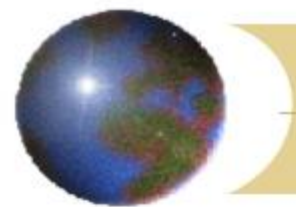
(P. J. O'Rourke)

IZQuotes



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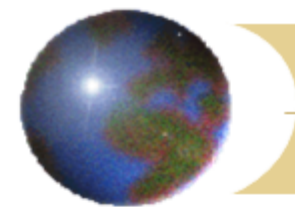
**'Governments are not great at picking winners,
but losers are great at picking governments'**

**— JACK MINTZ, FELLOW AT UNIVERSITY OF CALGARY'S
SCHOOL OF PUBLIC POLICY**



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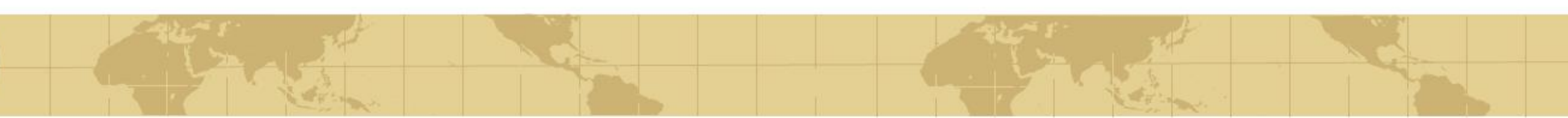
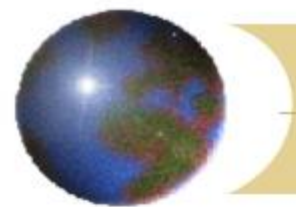
Examples of Corruption

- ✦ Farm subsidies
- ✦ Housing subsidies
- ✦ Tax preferences
- ✦ Health spending
- ✦ Defense budgets
- ✦ Infrastructure programs
- ✦ Education spending



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Can Tax Simplification Help Lower Tax Corruption?

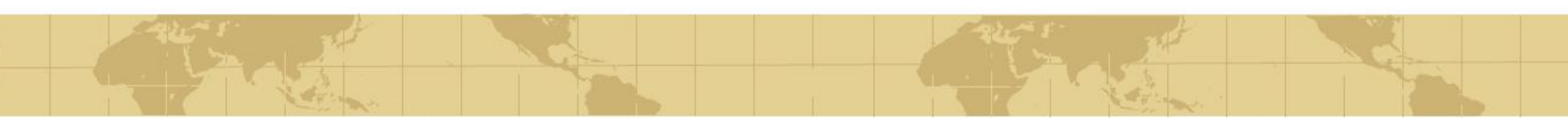
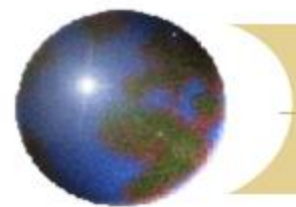
Does Greater Regulatory Burden
Lead to More Corruption?
Evidence Using Firm-Level Survey Data
for Developing Countries

Corruption, Regulatory Burden and Firm Productivity



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Banks with political ties got bailouts, study shows

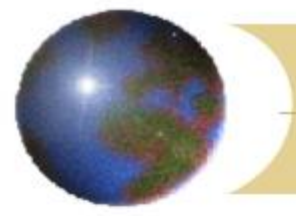
Political Connections,
Allocation of Stimulus Spending,
and the Jobs Multiplier

**The Political
Resource Curse**



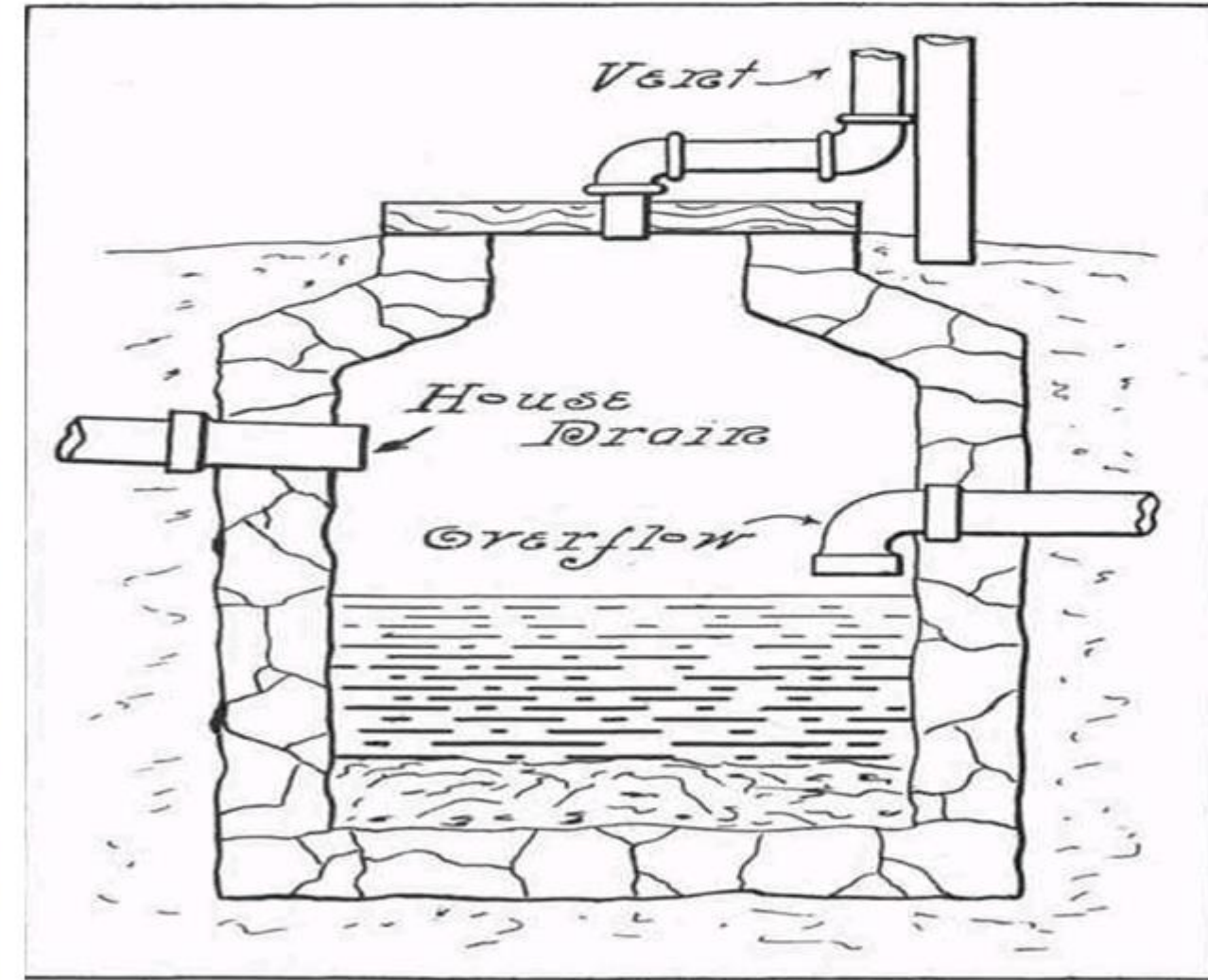
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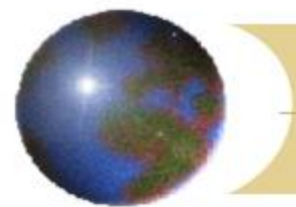
Government Is a Cesspool...

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...that Becomes a Hot Tub



⊕ (accessories not included)

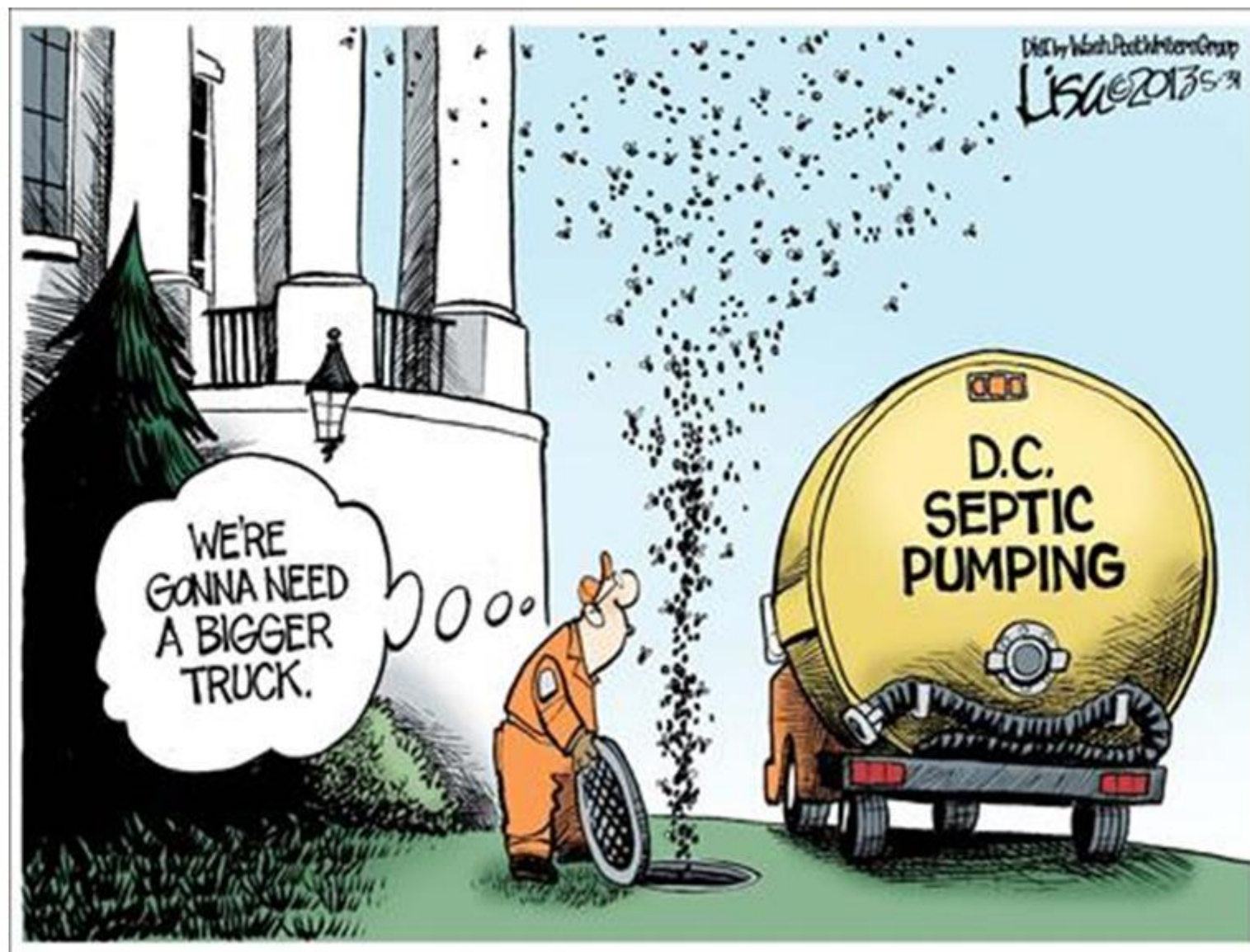
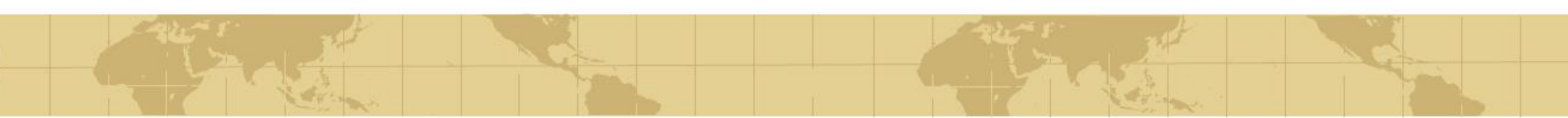
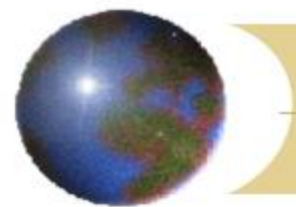
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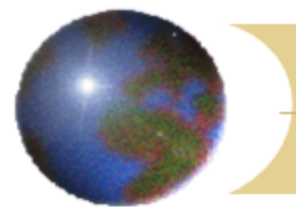
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Conclusion

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