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## COLUMNS

### Commentary: Okay if Government "can't cut spending", how about some restraint?

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The fiscal policies followed by successive governments - deficit spending, unfunded liabilities and the over all debt load of The Bahamas - will eventually become a burden for everyone through higher taxes or inflation, if restraint is not built into the system.

Dr. Dan Mitchell of the Libertarian Think Tank, the [Cato Institute](#) recently provided food for thought - ideas that might help our policy makers - in an article that first appeared in [Investor's Business Daily](#) on March 4, 2011.

Pointing out that "good fiscal policy doesn't require miracles - or dramatic shutdowns" but limiting the growth of the public sector, and coupled with normal revenue growth, government red ink disappears surprisingly quickly.

He provides a few excellent examples from around the world:

1. Between 1994 and 1999 the US increased spending only 3% each year and the result was a budget surplus.
2. In the early 90's in Canada, average annual increases in government spending was only 1%. In 1992 spending was 53% of GDP and the deficit was 9% of GDP. By 1997 spending was 44% of GDP. Again after just five years, there was a small surplus.
3. The story was pretty much the same in Ireland. Government spending was 60% of GDP in 1985 with deficits consuming another 12% of the economy's output. After just four years of fiscal restraint, spending was around 43% of GDP and deficits were reduced to 2.7% of GDP.
4. In Slovakia they increased their annual budget by only 1.3% of GDP on average over the three years from 2000 to 2003 and the public spending dropped from 36.9% of GDP to 29.2%. With other pro-growth policies like the flat tax and personal retirement accounts, economic growth was robust. And finally,
5. From 1990 to 1995 New Zealand dropped spending from 53.5% of GDP and deficits of 4.5% of GDP down to spending of only 43.1% of GDP and a budget surplus of 2.8% of GDP.

In the US Dr. Mitchell points out that; *"Two percent annual spending increases would lead to fiscal balance by 2021. Limiting spending growth to 1% annually would balance the budget by 2019. A spending freeze would balance the budget by 2017."*

So if the government "can't cut spending", surely the Budget can be held at current levels in an attempt to get the country's fiscal house in order in the not too distant future?

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