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Look What Happens When You Starve the Government Beast

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Dan Mitchell, a senior fellow at the Cato Institute, has developed a Golden Rule for starving the government beast. His common sense, easily remembered Golden Rule for government fiscal policy is, “The private sector should grow faster than the government.” Simple right? Yet for some reason this isn’t the normal operating procedure for most governments in the world today. Dan wrote recently about a handy table he created listing nations that increased nominal spending by less than 2% per year, and the fantastic response of those governments’ budget deficits as a result. Now he is adding a new country to the table, the U.K. Dan writes:

From the start of last decade up through the 2009-2010 fiscal year, government spending in the United Kingdom grew by 7.1 percent annually, far faster than the growth of the economy’s productive sector. As a result, an ever-greater share of the private economy was being diverted to politicians and bureaucrats.

Beginning with the 2010-2011 fiscal year, however, officials started complying with my Golden Rule and outlays since then have grown by an average of 1.6 percent per year.

And as you can see from this chart prepared by the Institute for Fiscal Studies, this modest level of fiscal restraint has paid big dividends. The burden of government spending has significantly declined, falling from 45 percent of national income to 40 percent of national income.