

## The ABC of Economic Literacy: 'G' is for government

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When searching for quotations about government, one thing quickly becomes clear: very few are positive. Thomas Jefferson, for example, put it this way:

"History, in general, only informs us of what bad government is."

Or take Thomas Paine:

"Government, even in its best state, is but a necessary evil; in its worst state, an intolerable one."

And these two quotes are actually some of the nicer ones you can find.

Maybe government gets a bad rap because governing well is inherently difficult. On the one hand, government by its very nature reduces our freedom and so we are rightly watching its actions with scepticism. On the other, expectations on government are enormous and many people want it to solve all the world's ills.

In political theory, the main justification for having a government is to prevent a "war of all against all" (Thomas Hobbes) and to guarantee peace, freedom and property rights (John Locke). This is the minimalist state, where the government's role is to provide the basic legal machinery of the state.

Many economists would regard this as the core function of the state. To finance it properly, maybe five to 10 per cent of GDP would suffice for these tasks. This was also the size of government in most Western countries, until the eve of World War I.

What we have seen since is a rapid expansion of government in which the state often controls almost half of all economic activity. At such levels, government does not guarantee freedom and property anymore. It becomes their greatest threat. This has consequences for economic performance.

In an empirical study conducted by the Canadian Fraser Institute, it was found that in advanced economies (such as New Zealand), the greatest factor that has increased the growth of government is the welfare state, or more precisely, the redistributive state. Rather than performing the core functions of administering law and justice, defence and public order, and the provision of public goods, nowadays, government growth is due to transfers between taxpayers, or between taxpayers and non-taxpayers.

Economists are highly sceptical about such transfers because they do not create wealth, they only redistribute it – and in doing so, they destroy incentives to work hard.

Which leads us to another classic quotation on what government is:

"Government is the great fiction, through which everybody endeavours to live at the expense of everybody else." (Frédéric Bastiat)

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*The New Zealand Initiative is a Wellington-based think tank formed by the merger of The New Zealand Business Roundtable and The New Zealand Institute. [www.nzinitiative.org.nz](http://www.nzinitiative.org.nz). CEO Dr Hartwich is a regular speaker at PortfolioConstruction Forum programs.*

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