

# Minimal Government: Philosophies and Global Trends

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[www.minimalgovernment.org](http://www.minimalgovernment.org)

## Why do we have Government?

### "Social Contract" theorem

Locke, Rousseau, Hobbes: Individuals to surrender a portion of their freedom to a state in exchange for order in society.

### Other theories:

The state as rep. of divine and God's power;...

### To address market failure and externalities

- Positive externalities: provide services where private enterprises are unwilling to provide because they cannot fully internalize the benefits.  
Ex: traffic lights, justice system, peace & order.

- Negative externalities: discipline erring enterprises and persons who do not want to be responsible for their actions.

Ex.: pollution, running away fr. crime committed

### To force collectivism and equality, institute welfarism

- Tax the rich as if the rich owe their wealth to the state, not to their hard work, savings and investments.

- Subsidize the poor (incl. the lazy) as if the poor were "exploited" by the rich, not due to the LACK of hard work, savings and entrepreneurship from many of them.

## OK, Government is necessary. But Big or Small Government?

### Big Government

→ Will require high and multiple taxes, fees and charges. Big bureaucracy and many politicians.  
→ Citizens enjoy good welfare. Although some over-taxed individuals complain of generous welfare abused by the lazy.  
→ Lesser room for individual freedom and responsibility because the state has collectivized what could be personal/parental responsibilities.

### Small Government

→ Will require low and fewer taxes, small bureaucracy, fewer politicians, fewer regulations.  
→ Citizens don't depend much on the state for education, health care, pension,....  
→ Bigger room for individual freedom and responsibility; collectivism is voluntary, not compelled.

\* The above question can also take various variants, below...

## Variant1: who knows better what's good for the individual, the State or the Individual himself?

### The State

- then politicians would slap high and multiple taxes  
-- then they'll define what's a "good life" for the citizens, compel collectivism, appropriate funds where they see fit  
-- citizens will pray that what they got are not corrupt politicians and state personnel, or institute another layer of bureaucracy and legislators to check or spy on other agencies.

### The Individual

- then lower taxes, the individual and households will finance their private education, health care, housing, pension,....  
-- the individual, his/her family and friends, define what's good for themselves. Some people won't care much about extensive welfare system at home, and prefer foreign travel and adventures as "good life"  
-- very few politicians and bureaucrats needed to perform limited state function.

## Variant 2: The State as administrator or just facilitator?

- Should the state actually provide or deliver the services (public education, health care, housing; pension, unemployment benefits,...) to achieve goals (skills and productivity improvement, social equity, poverty alleviation,...)
  - Or
  - Just make sure, facilitate, that the goals are accomplished, done by individuals themselves and their private enterprises and voluntary/civil society organizations. Competition among them sidelines if not eradicates the inefficient and costly service producers.
- The former option would mean big government; the latter means small government & small taxes.

## Variant 3: Should the State compel equality or allow inequality?

### Options/Policy

- Compel Equality – tax the rich more, overtax inheritance and "luxury items", expand the bureaucracy to distribute goodies to the poor, free educ. Until tertiary level, generous state unempl. allowances; high min. wage, difficult to fire workers.
- Allow inequality – flat tax for rich and poor alike, respect inheritance as savings from hard work of parents; no state unempl. insurance; no min. wage, freedom to hire and fire, easy to start or close a business.

### Implications

- Reduced incentives to work harder since the state will get more of your earnings as your income increases; high incentive to be irresponsible since social allowances keep coming, and schooling is free anyway.
- Higher incentives to work harder since you will keep a big portion of your income; no incentive to be jobless and irresponsible since social allowances are small if not zero. Easier to be an entrepreneur, aspire not to be an "employee forever".

## Variants of Big Government (Wide-ranging state presence, high taxes...)

### Big and Optimal:

-- the state can provide almost everything, but can also take away almost everything of the citizens' income  
 -- extensive, expensive welfare system; people enjoy the economic freedom but wish that they can keep more of their monthly pay.

### Big and Sub-Optimal:

-- despite high and multiple taxes, poor quality of public services: bad roads, mediocre public education and health care, unreliable police and justice system, corrupt and inept armed forces...  
 -- at least not under dictatorships.

### Big and Criminal:

-- economically strangled by extensive protectionism; quality of public services are mediocre and unreliable  
 -- Dictatorships and one-party system (the Communist Party), widespread human rights violation to preserve the dictatorship.

## The Problem with Big Government

(picture borrowed from Leon Louw of S. Africa)



## Exceptions: Whether Big or Small Government, should partially support...

- Those who cannot work -- not those who don't want to work: physically and mentally disabled adults, special or needy children; abandoned senior citizens.
- Temporarily dislocated (transitional assistance): those badly hit by natural calamities (strong earthquakes, tsunamis, volcanic eruption, typhoons, fire...), accidents and violent crimes.

## Who spends for whom...

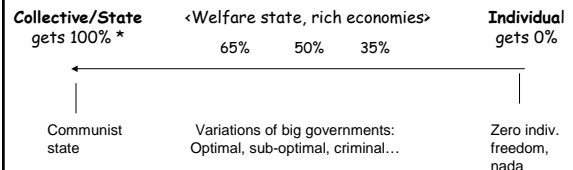
- Spending your own money for yourself (or your family) – you're very cautious.
- Spending your own money for others (charity, donations) – you're equally careful with its use.
- Spending other people's money for yourself (salaries and perks of politicians) – you tend to be more lavish.
- Spending other people's money for other people – you tend to be lavish while grabbing the credit.

## Minimal Government: Core Philosophies

- Small (not zero) government, limited to a few core functions – enforcement of property rights and contracts, foreign affairs, etc.
- Greater individual freedom and liberty, greater individual responsibility, lesser dependence from the state and the politicians
- Small and few taxes, simple tax rules, to finance a small government
- Individuals constitute markets, as buyers and sellers of various goods and services. Free markets mean free individuals. Free trade, free mobility of people, capital, technology, culture, across countries

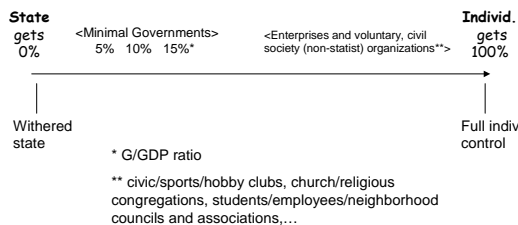
**Minimal Government = Minimal Taxes  
= Free Market = Individual Freedom**

## Control of Individual Income and Destiny: *Statist Model*

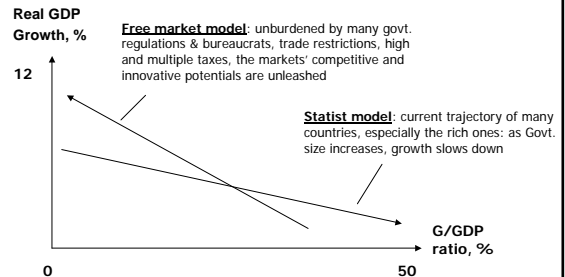


\* The numbers represent % of individual and corporate income taken by the collective (through the state). It can be proxied by government expenditures (G) as % of GDP (G/GDP ratio).

## Control of Individual Income and Destiny: *Free-market Model*



## Minimal Government and Market Dynamism



## Hear it from Adam Smith

(From: "The Wealth of Nations", 1776)

- Every individual...generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it... he intends only his own gain, and he is... led by an invisible hand to promote an end which was no part of his intention.
- It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.
- (On Government) The whole, or almost the whole public revenue, is in most countries employed in maintaining unproductive hands... Such people, as they themselves produce nothing, are all maintained by the produce of other men's labour... Those unproductive hands, who should be maintained by a part only of the spare revenue of the people, may consume so great a share of their whole revenue... that all the frugality and good conduct of individuals may not be able to compensate the waste and degradation of produce occasioned by this violent and forced encroachment.

## From Friedman, Havel, Jefferson...

People who intend only to serve public interest are led by invisible hand to serve private interest which was no part of their intention.  
-- Milton Friedman

The market economy is "the only natural economy, the only kind that makes sense, the only one that can lead to prosperity, because it is the only one that reflects the nature of life itself."  
-- Vaclav Havel

Men by their constitution are naturally divided into two parties. First, those who fear and distrust the people, and wish to draw all powers from them into the hands of the higher classes. Secondly, those who identify themselves with the people, have confidence in them, cherish and consider them as the most honest and safe, although not the wise depository of public interest.  
-- Thomas Jefferson

## Friedrich Hayek

(From "The Road to Serfdom", 1945)

- Liberalism regards competition as superior... because it is the only method which does not require the coercive or arbitrary intervention of authority.
- In a competitive society, most things can be had at a price. It is often a cruelly high price. We must sacrifice one thing to attain another. The alternative, however, is not freedom of choice, but orders and prohibitions which must be obeyed.
- Individualism, in contrast to socialism and all other forms of totalitarianism, is based on the respect of Christianity for the individual man and the belief that it is desirable that men should be free to develop their own individual rights and bents.

## Ayn Rand...

- The **only function** of government, in a (capitalist) society, is the task of protecting man's rights, i.e., the task of protecting him from physical force; the government acts as the agent of man's right of self-defense, and may use force only in retaliation and only against those who initiate its use. -- **Capitalism: The Unknown Deal**, 1966
- My philosophy, in essence, is the concept of man as a heroic being, with his own happiness as the moral purpose of his life, with productive achievement as his noblest activity, and reason as his only absolute. -- **Atlas Shrugged**, 1957

## 7 Principles of Sound Public Policy

### Examples:

1. Free people are not equal, and equal people are not free. → Free people: HK, Singapore, UK, US, Australia, Canada,...
2. What belongs to you, you tend to take care of; what belongs to no one or everyone tends to fall into disrepair. → Equal people: N. Korea, Myanmar, Zimbabwe, Congo, Burundi,...
3. Consider long-run effects and all people, not simply short-run effects and a few people. → Privately-owned land vs. public forest land; private beach resorts vs. fishing villages; hotel toilets vs. public toilets
- Trade protectionism: domestic producers vs. dom. consumers

\* Source: Lawrence Reed, Mackinac Center for Public Policy, Michigan (www.mackinac.org)

## 7 Principles of Sound Public Policy\*

### Examples:

4. If you encourage something, you get more of it; if you discourage something, you get less of it. → Encourage state paternalism by over-regulating business, multiple-taxing them, less jobs created, people turn to govt. to be hired, ask for welfare...
5. Nobody spends somebody else's money as carefully as he spends his own. → A politician spending his own money for his house vs. same politician spending other people's money for other people's public market or school building...
6. Government has nothing to give anybody except what it first takes from somebody, and a govt. that's big enough to give you everything you want is big enough to take away everything you've got. → Politicians who promise that they'll provide this, subsidize that, but planning to tax you further, hike govt. charges & fees, regulate your life further.
7. Liberty makes all the difference in the world. → "Welfare state" may be defined as "the politicians are well, us taxpayers pay the fare".

## Lessons on Limited Government: 1

1. People governed least are governed best.
  2. Government should be a rudder, not an engine; facilitator, not administrator.
  3. People know better than government. When government raises taxes, it says: "We know how to spend your money better than you do."
  4. Government should be measured the same way every other enterprise is measured – by results.
  5. Doing things more efficiently is not the ultimate end of government. Sometimes government should just get out of the area.
- Former Mayor Stephen Goldsmith, Indianapolis, USA  
1995 Reform Plan

## Lessons on Limited Government: 2

1. Good government is wise and frugal.
  2. Government should restrain individuals from injuring one another.
  3. Government should leave the people free to regulate themselves.
  4. Government should not take from the mouths of labor the bread it earned.
- For every item in the budget, I ask... Is this activity more important than a tax cut for all working families and small businesses – or other priorities the citizens have in law enforcement, education and job creation.
- Former Governor George Allen, Virginia, USA

## Lessons on Limited Government: 3

1. Define core functions – like justice, police, defense, treasury. All others to be scrutinized for: reduction, consolidation, abolition, devolution, or privatization. Places where activities should be undertaken: 1<sup>st</sup>, individual citizens; 2<sup>nd</sup>, private organizations; 3<sup>rd</sup>, local governments; 4<sup>th</sup> state governments; and 5<sup>th</sup>, federal government.
  2. Cut sharply and rapidly. Do it sooner than later, don't wait. If a program is outmoded, no more "death of a thousand cuts".
  3. Downsize. Enterprises are doing this exactly.
  4. Don't micromanage. (a) Don't give legislators credit for pork; (b) privatize where possible; (c) sell underutilized assets.
- Sec. Donald Rumsfeld, June 1995 testimony to Congressional sub-committees on reorganization principles

## Intermission: on Politicians

- Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly, and applying the wrong remedies. 🤖
- These are my principles. If you don't like them, I have others. 🤖  
-- Groucho Marx
- Politicians are guys who have the ability to get money from the rich and votes from the poor, on the pretext of protecting one from the other. 🤖
- Politicians are those people who have the clairvoyance to forecast what will happen tomorrow and have the ability to explain afterwards why they did not happen. 🤖  
-- anonymous

## Global Trend: Big Governments are learning (or forced) to cut taxes

Europe-A	1980	1990	2002
1. Italy	72	66	52
2. Netherlands	72	63	52
3. Portugal	84	57	57
4. Finland	65-71	61-69	55-60
5. Germany	65	53	51
6. Denmark	66	69	63
7. Hungary	--	60	63
8. France	60	61	61-64
9. Norway	75	64	65
10. Austria	62	62	67
11. Belgium	76	70	64-68
12. Sweden	87	79-86	64-69

### Top marginal income & payroll tax rate, %:

\* Current rates are still high (more than 50% of individual income), yet tax cuts over the past 2 decades have been big. About 20% cut in Italy, Netherlands, Portugal, Sweden.

\* Tax rates though remained generally flat in Finland, France, Austria.

## European countries with top marginal income & payroll tax rate below 50%...

Europe-B	1980	1990	2002
1. U. Kingdom	83	40	40
2. Greece	60	50	40
3. Luxembourg	--	58	40
4. Turkey	75	57	40
5. Poland	--	63 ('95)	44
6. Spain	66	56	35-45
7. Switzerland	31-44	36-46	39-48
8. Ireland	60	57	49
9. Russia	100	80	49

Huge tax cuts as well in these countries, especially in UK, by 43% points!

Slovak Republic, the "Detroit of Europe", the "HK of Europe", currently has a flat tax rate of only 19%!

From "all income to the state" to only 49% tax rate!

## Same Trend in North and Latin America... Top marginal income & payroll tax rate, %

Americas	1980	1990	2002
1. United States	70-75	36-45	38-45
2. Canada	60-68	44-54	39-49
3. Mexico	55	40	35
4. Argentina	45	57	35
5. Venezuela	45	45	35
6. Chile	58	50	40
7. Colombia	56	30	44
8. Peru	65	48	49
9. Brazil	55	53	50

US, 30% tax cut!  
Canada, 20% cut.

Tax cut bet. 10% to 20% over the past 2 decades, except Brazil, only 5% cut.

## Even bigger tax cuts in Asia...

Asia	1980	1990	2002
1. Hong Kong	15	25	17
2. Singapore	55	33	22
3. Malaysia	60	45	28
4. India	60	53	32
5. Philippines	70	35	32
6. Pakistan	55	50	35
7. Thailand	60	55	37
8. Indonesia	50	35	40
9. Taiwan	60	50	40
10. S. Korea	89	66	40
11. China	--	45	45
12. Japan	70	69	50
1. New Zealand	62	33	40
2. Australia	62	49	49

### Top marginal income & payroll tax rate, %:

Note the huge cuts in many Asian economies, especially Singapore, Malaysia, India, the Philippines, and S. Korea

Former dictator Pres. Marcos wanted to get almost the entire income of every middle class and rich Filipinos!

Also in NZ and Australia

## And in the Middle East and Africa... Top marginal income & payroll tax rate, %

Mid-E. & Africa	1980	1990	2002
1. Nigeria	70	55	25
2. Egypt	80	65	34
3. Iran	90 ('85)	75	35
4. S. Africa	60	45	41
5. Morocco	64	87	44
6. Israel	66	64	58
7. Zimbabwe	45	60	46
8. Congo, Dem. Rep.	60	60	54
9. Gabon	--	60	56
10. Cameroon	--	63	68

Huge cuts here...

These 4 are among the countries which score lowest in econ. freedom index..

Source: Gwartney and Lawson, 2004. *Economic Freedom of the World* (EFW), 2004 Annual Report. copyright by The Fraser Institute, published by Friedrich Naumann Foundation.

## Corporate taxes are also coming down: Top corporate tax rates, %

Up to 30%	1980	1990	2002
Switzerland	11.5	9.8	8.5
Ireland	45	43	16
Germany	56	50	25
S. Korea	30	30	27
Norway	27.8	27.8	28
Sweden	40	40	28
Finland	43	25	29
Australia	46	39	30
Denmark	40	40	30
Japan	40	40	30
United Kingdom	52	35	30

Note big rate drops in the following countries...

No 1980 and 1990 data for the following; tax rates in 2002:

Hungary, 18%  
Iceland, 18%  
Slovak Rep., 25%  
Poland, 28%

## Top Corporate Tax Rates, %

Higher than 30%	1980	1990	2002
New Zealand	45	33	33
France	50	37	33.3
Austria	55	30	34
Netherlands	48	35	34.5
Greece	43.4	46	35
Mexico	42	36	35
Spain	33	35	35
United States	46	34	35
Italy	25	36	36
Canada	46	38	38
Belgium	48	41	39

Note huge tax cut in these countries bet. 1980 to 1990, plateaued in the 2000s...

But Italy increased its tax rates between 1980 to 1990...

Source: <http://www.taxfoundation.org/internationaltax/intlcorptaxes.html>

## Moving away from welfarism in Britain

Blair seeks to create land of opportunity  
AP, Reuters, October 12, 2004



**LONDON** ... "But now, on the foundations of economic stability and record investment, the third-term vision has to be to alter fundamentally the contract between citizen and state..."

It was, he said, "to move from a welfare state that relieves poverty and provides basic services to one which offers high-quality services and the opportunity for all to fulfill their potential to the full."

In his speech Monday, Blair warned that for too many people in Britain, the welfare state "is one which simply pays out benefits, trapping people into long-term or even lifelong dependency."

... Blair said Monday that he would not back down and that the welfare state, established by his Labour forefathers almost 60 years ago, needed to be overhauled.  
<http://www.ihf.com/articles/543053.html>

## Declining trust in the state and politicians in Germany

Germany's parties adrift

Richard Bernstein/NTY The New York Times  
October 10, 2004



**GELSENKIRCHEN, Germany** ... The two major political parties and several minor ones agree on the basics - that there needs to be less state and more individual enterprise - even as no party offers a vision that excites the imaginations of the electorate.

"People are very skeptical about the two major parties and their competence," said Peter Lösche, a professor of political science at Göttingen University and a prominent political commentator.

Or, as Walter Knosowski, a retired miner waiting at Gelsenkirchen's new sports arena to watch the Schalke players practice, bluntly put it, "The politicians all babble the same nonsense, and the voters are confused." ...

## Tax cut in Greece...

Greece plans tax cut for business

Reuters, Bloomberg News, AFP  
November 11, 2004



**ATHENS** Greece said Wednesday that it planned to cut its corporate tax rate by 10 percentage points over the next three years to spur investments, even though the European Union had ordered it to halve its public debt.

The government will reduce the 35 percent tax rate for corporations to 32 percent in 2005, Economy Minister George Alogoskoufis said, then to 29 percent in 2006 and to 25 percent in 2007.

In addition, the government wants to exempt a further €1,000, or \$1,300, from income tax.

"The tax cuts are a move in the right direction," said Platon Monokroussos, head economist at EFG Eurobank Ergasias, the No. 3 Greek lender. "It should be good for the economy and should be good for growth."

... <http://www.ihf.com/articles/2004/11/10/business/drachma.html>

## N. Korea opening up to markets

Pyongyang reaches out to 'invisible hand'

By Anna Fifield,  
Published: January 6 2005 02:00



The invisible hand of the free market is slowly starting to guide the North Korean economy, although Kim Jong-il's iron fist still has a tight grip around it.

Following more than two years of economic experimentation, with mixed results, it appears Mr Kim's cash-strapped regime is now ready to let a little more capitalism into the tightly controlled communist nation. Restaurants and computer cafés are springing up in Pyongyang, and farmers will soon be allowed to grow more food for their families.

"North Korea is following the former Chinese path, focused on increasing productivity," says Kil Jeong-woo, head of the Unification Research Institute at South Korea's JoongAng Ilbo newspaper. "They are heading in the right direction towards a more market-based economy, but progress is slow..."

<http://news.ft.com/cms/s/2f37c060-5f89-11d9-bcca-00000e2511c8.html>

## Conclusions

- With globalization and increasing mobility among people, competition among countries to attract investments and talented people make big governments to realize that high taxes and too much bureaucratic regulations discourage these resources from coming into their countries.
- With bleeding fiscal situation of many rich economies, expensive welfarism and economic protectionism are slowly being reformed, if not abandoned in the coming decades.
- People want to decide what's good for themselves, not the state politicians and bureaucrats. As information becomes more accessible to more people, over-regulation and "nanny statism" becomes counterproductive in promoting individual liberty.

And so, we now move to specific advocacies for Minimal Government for the Philippines. Part 2 follows...