

What's your government's share of GDP? The answer is pointless

“National destinies are not shaped by what percentage of G.D.P. federal spending consumes. They are shaped by the character and behaviour of citizens. The crucial issue is not whether the federal government takes up 19 percent or 23 percent of national income. The crucial question is: How does government influence how people live?”

David Brooks – New York Times – January 4, 2010

David Brooks is on to something that the all sectors – private, government and non-profit – needs to take seriously. I don't know how many times in the last two years I have heard non-profit spokespersons speak about the share of GDP comprised by the non-profit sector. I shake my head every time I hear estimates from 3% to 9%.

As proponents of good government like David Brooks have been saying, percentage of GDP just doesn't matter that much. In Canada where the private sector accounts for somewhat less than 60% of GDP and governments weigh in somewhere between 35 to 37%, the figures are meaningless because no one knows what the proper measure is and what we would be like as a nation if we ever got to wherever it is we should get to. As Yogi Berra famously intoned, "If you don't know where you are going, you will wind up somewhere else..."

Of the 200 or so sovereign nations in the world, Haiti and Singapore both share among the lowest levels of government share of GDP. But one is a radically poor failed state while the other boasts one of the strongest economies and best standards of living in the world. The difference is that the private sector in Singapore functions much like governments do elsewhere. Go there! - It hits you in the face. In Haiti, the government and private sectors are both non-functional and the result is equally obvious.

Iraq and France boast some of the highest government shares of GDP in the world. Once again, one is a failed state and the other, although not without its share of troubles, boasts an extremely high level of social cohesion and a powerful vibrant economy.

While Canada and most nations are in the "Goldilocks" middle between these extremes, it is hard to know what to strive for when there is no target and no measures of what life would be like if we ever achieved whatever standard we achieved.

Percentage of GDP is a measure of a means to an end where no one knows what the end is. Better lives? Stronger economies?

If Brooks had gone a bit further in his analysis, he may have broadened his important point about achievement to the private and non-profit sectors.

Comparatively speaking, the private sector in Canada takes little responsibility for improving society but there are some encouraging signs among our financial institutions and others that the private sector should expand its role. Yet dangerously, many call for reduced government at the same time as they harbour few intentions to improve Canada's standard of living as part of their own corporate agendas. Their role as they see it is to improve their own lot and that of their shareholders. This is a recipe for even more of the growing inequality we see all around us.

If the private sector wants less government but has no plan of its own, is there any evidence that charities and public initiative alone can be responsible for improving our living standards or even keep them from eroding?

Even though the non-profit sector understands that the answer to the above question is an emphatic “no”, it spends little time talking about its own responsibilities and often consumes itself railing against other sectors that spokespersons believe should take on more. While noting proudly the importance of its own share of GDP (often double counting the government funding it receives), the sector never tells you whether its share or any other sector's share should be smaller or larger.

The reason is that they don't know. The sector wants to be big when it suits and smaller when it comes to government doing more.

Still, the irrelevant debate over sector share of GDP rages. For the most part, the discussion centres on the concern over whether government share of GDP should be smaller in the wake of the US government's assumption of enormous amounts of private debt when large parts of the shadow banking sector collapsed in disarray in 2008.

Even though the collapse occurred largely due to private sector excesses and the failure of government oversight, the fact remains that governments throughout the world had no choice but to move in or risk a worldwide economic depression.

It is natural therefore, that a very large realignment of GDP share should get people talking. But the idea that government share of GDP should now shrink in favour of a greater private sector share is as pointless as it has always been. The real question is what each sector is going to do with its share and giving GDP share back to the private sector so it can blow up the world again hardly sounds like a plan.

The experience of the United States proves the point and the experiences of Haiti, Singapore, Iraq and France back it up.

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January 4, 2011

<http://www.nytimes.com/2011/01/04/opinion/04brooks.html?nl=todaysheadlines&emc=tha212>