

SIZE OF THE PUBLIC SECTOR

Comparing economic systems is a multi-dimensional task because it involves laws, rules, institutions and norms and their many (sub-)variables being relevant for a meaningful comparison. Unfortunately, there does not seem to exist a well established theoretical framework – or methodological manual, for that matter – to systematically perform an empirical comparison of systems. Moreover, many variables that fall in the realm of such a comparison are difficult to measure. Attempts to compare empirically economic systems, thus, mostly take recourse to a common sense approach which treats important variables under the headings of labour and product market regulations, system of social security, enterprise environment, legal tradition, societal norms, and, above all, the public sector.

The public sector, as one important feature of an economic system, is also multi-dimensional and, moreover, difficult to separate from the other fields of variables used for systemic comparisons. The following variables can be considered for assessing the systemic role of the public sector: public employment, public enterprises and privatisations, structure of public expenditures, tax system, rules governing budget deficits and the public debt level, size and quality of central public goods provided and, generally, the quality of governance. The first approach to capture the role of government in a country-country comparison often simply considers the size of the sector, which, in turn, may be measured by tax revenues (proper), by social security contributions or by the sum of both, each as a percentage of GDP. These measures only reveal certain aspects of the true impact of the public sector on the economy and con-

Total tax revenues plus social security contributions, as a percentage of GDP, 1965 – 2004

| | 1965 | 1970 | 1975 | 1980 | 1985 | 1990 | 1995 | 2000 | 2003 | 2004 | Change in percentage points | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------------|-----------|
| | | | | | | | | | | | 1965–2004 | 2000–2004 |
| Sweden | 35.0 | 38.2 | 41.6 | 46.9 | 47.8 | 52.7 | 48.1 | 53.4 | 50.1 | 50.4 | 15.4 | –3.0 |
| Denmark | 29.9 | 38.5 | 39.3 | 43.1 | 46.5 | 46.5 | 48.8 | 49.4 | 47.7 | 48.8 | 18.9 | –0.6 |
| Belgium | 31.1 | 33.9 | 39.5 | 41.3 | 44.4 | 42.0 | 43.6 | 44.9 | 44.7 | 45.0 | 13.9 | 0.1 |
| Finland | 30.4 | 31.7 | 36.7 | 35.9 | 39.9 | 43.9 | 45.6 | 47.7 | 44.6 | 44.2 | 13.8 | –3.5 |
| Norway | 29.6 | 34.4 | 39.3 | 42.5 | 43.0 | 41.5 | 41.1 | 43.0 | 42.9 | 44.0 | 14.4 | 1.0 |
| France | 34.5 | 33.7 | 35.5 | 40.2 | 42.4 | 42.2 | 42.9 | 44.4 | 43.1 | 43.4 | 8.9 | –1.0 |
| Austria | 33.9 | 33.9 | 36.7 | 39.0 | 40.9 | 39.6 | 41.1 | 42.6 | 42.9 | 42.6 | 8.7 | 0.0 |
| Italy | 25.5 | 25.7 | 25.4 | 29.7 | 33.6 | 37.8 | 40.1 | 42.3 | 41.8 | 41.1 | 15.6 | –1.2 |
| Czech Republic | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 37.5 | 36.0 | 37.6 | 38.4 | n.a. | 2.4 |
| Hungary | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 42.1 | 38.7 | 38.1 | 38.1 | n.a. | –0.6 |
| Luxembourg | 27.7 | 23.5 | 32.8 | 35.7 | 39.5 | 35.7 | 37.0 | 39.1 | 38.2 | 37.8 | 10.1 | –1.3 |
| Netherlands | 32.8 | 34.1 | 39.6 | 41.8 | 41.0 | 41.1 | 40.2 | 39.5 | 37.0 | 37.5 | 4.7 | –2.0 |
| United Kingdom | 30.4 | 37.0 | 35.3 | 35.2 | 37.7 | 36.5 | 35.0 | 37.2 | 35.4 | 36.0 | 5.6 | –1.2 |
| New Zealand | 24.0 | 26.0 | 28.5 | 30.6 | 31.1 | 37.4 | 36.6 | 33.6 | 34.4 | 35.6 | 11.6 | 2.0 |
| Greece | 19.5 | 21.9 | 21.3 | 23.6 | 28.0 | 28.7 | 31.7 | 37.3 | 36.3 | 35.0 | 15.5 | –2.3 |
| Spain | 14.7 | 15.9 | 18.4 | 22.6 | 27.2 | 32.5 | 32.1 | 34.2 | 34.3 | 34.8 | 20.1 | 0.6 |
| Germany | 31.6 | 32.3 | 35.3 | 37.5 | 37.2 | 35.7 | 37.2 | 37.2 | 35.5 | 34.7 | 3.1 | –2.5 |
| Portugal | 15.8 | 18.4 | 19.7 | 22.9 | 25.2 | 27.7 | 31.7 | 34.1 | 35.0 | 34.5 | 18.7 | 0.4 |
| Poland | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 37.0 | 32.5 | 34.9 | 34.4 | n.a. | 1.9 |
| Canada | 25.7 | 30.9 | 32.0 | 31.0 | 32.5 | 35.9 | 35.6 | 35.6 | 33.6 | 33.5 | 7.8 | –2.1 |
| Australia | 20.8 | 21.5 | 25.8 | 26.6 | 28.2 | 28.5 | 28.8 | 31.1 | 30.7 | 31.2 | 10.4 | 0.1 |
| Slovak Republic | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 33.1 | 31.2 | 30.3 | n.a. | –2.8 |
| Ireland | 24.9 | 28.4 | 28.7 | 31.0 | 34.6 | 33.1 | 32.5 | 31.7 | 28.7 | 30.1 | 5.2 | –1.6 |
| Switzerland | 17.5 | 19.8 | 24.5 | 25.3 | 26.1 | 26.0 | 27.8 | 30.5 | 29.4 | 29.2 | 11.7 | –1.3 |
| Japan | 18.2 | 19.6 | 20.9 | 25.4 | 27.4 | 29.1 | 26.9 | 27.1 | 25.7 | 26.4 | 8.2 | –0.7 |
| United States | 24.7 | 27.0 | 25.6 | 26.4 | 25.6 | 27.3 | 27.9 | 29.9 | 25.7 | 25.5 | 0.8 | –4.4 |
| Average | 26.3 | 28.5 | 31.0 | 33.4 | 35.4 | 36.4 | 37.2 | 37.9 | 36.9 | 37.0 | | |
| Standard deviation | 11.3 | 12.2 | 13.3 | 14.1 | 14.7 | 14.8 | 9.5 | 6.5 | 6.4 | 6.5 | | |

Source: OECD, Revenue Statistics, 2006, pp. 70–71; own calculations.

ceal others. But they are often cited because they provide a simple measure of a very important aspect. We consider in the following the sum of tax and social security contributions as a percentage of GDP, while bearing in mind that systemic differences, specifically in social security, in countries like Australia, New Zealand or Switzerland, make a simple comparison and interpretation questionable.

In the table, the countries are arranged in declining order of their 2004 value of total tax revenues plus social contributions as a percentage of GDP. Sweden and Denmark stand out as leaders on the list while Japan and the U.S. rank at the bottom. The lowest increase from 1965 to 2004 in percentage points by far happened in the US (+ 0.8), followed by Germany (+ 3.1) and the Netherlands (+ 4.7), while the largest increases occurred in Spain (+ 20.1), Denmark (+ 18.9) and Portugal (+ 18.7).

Considering the change from 2000 to 2004, a clear majority of 17 countries (of a total of 26 countries) has reduced, sometimes significantly, the size of their public sector. The leader in reduction is the US (- 4.4), followed by Finland (- 3.5) and Sweden (- 3.0). The Czech Republic witnessed the largest increase (+ 2.4), while New Zealand and Poland followed suit (+ 2.0 and + 1.9, respectively).

The mean value of the size of the public sector of all countries has increased continuously and considerably between 1965 and 2000 and has only thereafter been slightly reduced. Until 1990, there was no convergence but rather a divergence in the development of the size of the public sector (increasing standard deviation). However, after 1990 there was a strong convergence tendency. Thus, countries have become more similar in terms of the size of the public sector.

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