

Proposing the Government Activism Index

By Russel J. Lyster

While opinions and analysis on tax rate adjustments are numerous, commentators and analysts far less frequently opine on lower-profile government actions. This is detrimental to public debate about how public policy affects the private economy, and the consequences of this lack of insight can be dire. One need look no further than the United States, where a perfect storm of subsidies, inappropriate regulation, and overactive government bodies created a crisis in the housing market that contributed to a global recession.

With such problems in mind, I propose that the Fraser Institute develop a Government Activism Index (GAI), representing any particular government's impact on a free market economy. Tracked on a yearly basis, the GAI would be an aggregate score measuring changes in the complexity of the tax code; the creation, elimination, and alteration of regulations; and government spending as a percentage of GDP.

The introduction of targeted subsidies and exemptions into the tax code often has far reaching effects beyond those intended by legislators. One example is the case of bio-fuels, where several industrialized nations introduced tax incentives for research and production of fuels from renewable materials, including high starch crops. While intended to decrease the use of fossil fuels, these tax incentives also artificially inflated demand in the global food market, which led to massive price increases, and eventually triggered hunger crises in 2008. Because any attempt to promote a specific behaviour through tax changes impacts the economy, measuring changes in the complexity of the tax code is vital to the larger measurement of government activism.

Regulatory and legislative changes are also subject to the law of unintended consequences, and invariably affect the economy in unforeseen ways. As only one instance, consider the mandatory requirement for first aid training imposed on business operators by most Canadian provinces. Beyond the goal of improving worker safety, these regulations have created a multi-million dollar safety training industry, while also

increasing costs to primary business. More generally, any onerous requirements, be they financial or environmental in nature, can tilt conditions in favour of large companies with the capacity to absorb added costs better than their smaller competitors. Tracking the impact of every regulatory change introduced by a government would be complex and of little utility. However, this can be vastly simplified by instead using a simple measurement such as the increase or decrease in total Acts, pages, or even words, within a given year.

The concept of measuring government spending as a percentage of GDP needs little introduction - it is a rough but efficient measure of the size of government. This data is readily available for most levels of government, and the implications are fairly straightforward: a large spending to GDP ratio indicates more activism, and smaller ratio indicates less. While the measurement has utility outside of the proposed index, its inclusion imparts a fuller picture of government intervention in the economy.

The GAI can be a valuable tool for facilitating comparative studies. By quantifying government activism, and simplifying its measurement, it can be correlated with a wide variety of prosperity indicators ranging from investor confidence to GDP growth to government budgetary information. From there, the GAI can be used to compare or rank government performance, and even track changes in one government's activism on an annual basis. Finally, the GAI can be an important instrument both for promoting public debate on the role of government, and for assisting citizens and media in judging the effectiveness of government policy.