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New JEC Study Shows Impact of Government Spending Around The World

WASHINGTON, DC -- Countries with the fastest rise in government spending experienced the most rapid slowdown in economic growth between 1960 and 1996, a new study from the **Joint Economic Committee (JEC)** concludes. The study, *The Size and Functions of Government and Economic Growth*, examines changes in the level and composition of government spending and the resulting effects on investment and economic growth in the 23 member countries of the Organization for Economic Cooperation and Development (OECD). A further examination of data from a larger set of 60 countries reinforces those findings on the optimal size of government.

"Up to a point, government spending is beneficial, providing greater benefits than costs," said **JEC Chairman Jim Saxton (R-NJ)**. "However, according to this study, as government grows beyond this break-even point, it becomes progressively more counterproductive. This additional government burden becomes a drag on economic growth, eroding living standards more and more over time. The new JEC study documents one major reason for the lagging economic performance of many of the European nations, a condition sometimes referred to as Eurosclerosis."

Among the findings in the study:

- The OECD countries with the most rapid growth in government experienced the largest slowdown in economic growth.
- The five fastest growing economies in the world from 1980 to 1995 had total government expenditures as a percentage of GDP averaging 20.1 percent, which is less than half the average of OECD countries.
- If U.S. government expenditures as a share of GDP had remained at their 1960 level, real GDP in 1996 would have been more than $1 trillion higher.

The study notes that as the scope of government spending expands beyond core functions, higher taxes and/or borrowing exert negative effects on economic growth. Excessive tax rates can undermine incentives to invest, innovate, and work while withdrawing resources from the private economy. Borrowing also withdraws resources from the private sector by crowding out private investment. As government spending grows, these counterproductive effects become more severe, significantly retarding economic growth.

The study is a statistical analysis of the relationship between the size of government spending and economic performance using two sets of international data. Three academic economists conducted the study using standard econometric techniques and taking into account institutional differences between nations where appropriate.

For more information or a copy of this study, contact the JEC at (202) 224-5171 or view its website at www.house.gov/jec/.

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