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BUDGET SURPLUSES STIMULATE FEDERAL SPENDING

— New Study Clarifies Fiscal Policy Choices for Next Congress —

Washington, D.C. – 60% of budget surpluses are reflected in new federal spending within one year, according to a new study released today by **Chairman Jim Saxton of the Joint Economic Committee (JEC)**. The new JEC study, *Budget Surpluses, Deficits and Government Spending,* is a statistical examination of patterns in federal spending from 1792 to the present, but with a particular focus on recent decades.

“This new JEC study demonstrates that budget surpluses spur new spending, and most of them are spent in short order,” Saxton said. Unfortunately, much of this spending is unnecessary and reduces the resources available for economic growth. This spending bias also explains one reason why modern periods of budget surpluses have been so short-lived.

“The policy implication of this study for tax surpluses is very clear: Use it or lose it. If a surge of tax revenue is not returned to the taxpayers, the tendency of the government will be to dissipate it on increased spending. This paper finds that over time very little of any budget surplus is left to reduce the federal debt. Tax reduction and federal spending restraint are the best ways to ensure that federal spending as a share of total output continues to trend towards the point most conducive to economic and income growth.”

The main conclusions of the study include:

- Over the full sweep of constitutional history, on average 37 cents of each one dollar surplus is used for increased federal spending in the following year;
- The propensity to spend out of budget surpluses has risen significantly over time, and in the postwar era at least 60 cents of each surplus dollar is spent the next year;
- Early in the Republic, a majority of surpluses were returned to taxpayers in the form of lower taxes; in the modern era, very little if any of surplus funds is used for tax reduction, and;
- Surpluses arising right after World War II, in the mid-1950s, and in 1969 were quickly dissipated by major spending increases.

The study was prepared for the Joint Economic Committee by Professors Richard K. Vedder and Lowell Gallaway of the Ohio University Economic Department. Both have previously served as economists on the staff of the JEC.

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