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FISCAL RESTRAINT AUGMENTS ECONOMIC AND INCOME GROWTH
-- JEC Study Provides a Foundation for Budget Policy in New Congress --

WASHINGTON, D.C. — Restraint of government spending improves economic growth, according to a new **Joint Economic Committee (JEC)** study released today. Entitled *Government Size and Economic Growth,* the paper finds the cumulative effect of fiscal restraint during the 1990s increased the output of the U.S. economy one full percent by 1997.

The study also concludes that federal spending, as a share of the economy, still is above its optimal level. As a result, future spending restraint offers the opportunity for additional increases in economic growth. The Administration and Congress have endorsed policies that could gradually reduce federal outlays as a share of total output to below 19 percent.

"This study's compelling evidence demonstrates why the Administration and Congress should agree to slow federal spending to increase long-term economic growth," said **JEC Chairman Jim Saxton (R-N.J.)**. "While the federal government performs many necessary functions that add to the economy up to a point, beyond this point the government's involvement in the economy can become a drag on growth."

"This evidence shows that although the relative size of federal spending has declined during the 1990s, it remains above its optimal level of about 17.5 percent of gross domestic product (GDP)," Saxton said. "A gradual policy of federal spending restraint would free resources for additional long-term economic and employment growth."

The econometric study examines data for the United States as well as several major European nations. The results suggest more growth could be obtained in those European nations through a policy of fiscal restraint. This paper validates the commonsensical notion that government spending is useful in providing core public goods and services, but can be ineffective and counterproductive when such spending becomes too far-reaching and expensive.

According to the study, "As governments grow, the law of diminishing returns begins operating." One policy implication is that a "sound budget policy would be for the nation to continue to allow for modest growth in federal spending, but by amounts less than overall nominal increases in GDP, so that spending declines as a percent of GDP."

Professors Richard K. Vedder and Lowell Gallaway of the Ohio University Economics Department prepared the study for the JEC. Both have previously served as JEC staff economists.

To read this report, visit the JEC website at www.house.gov/jec/.

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