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CHAIRMAN JIM SAXTON

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NEW STUDY EXPLORES HIDDEN COSTS OF GOVERNMENT SPENDING

WASHINGTON, D.C. – Each additional increase in federal spending imposes disproportionately greater costs on the economy, according to a new study released today by Joint Economic Committee (JEC) Chairman Jim Saxton. According to a large body of economic literature, the full economic cost of every dollar of additional government spending can be conservatively estimated at about \$1.40, due to losses associated with tax financing of the added expenditure. The study, *Hidden Costs of Government Spending*, explains the sources of these costs in terms of lost output, reduced consumer welfare, and extra compliance and enforcement costs.

“Policymakers must consider all the costs of new federal spending in order to make informed fiscal decisions,” Saxton said. “However, many of the costs of federal spending are not reflected in the budget, and thus tend to be ignored. The result is often a bias towards additional federal spending that is wasteful in the sense it imposes greater costs on the economy than it provides in benefits.

“Additional federal spending ultimately is financed by taxation, either now or in the future. Every dollar raised in taxes to finance new spending also affects economic decision-making and imposes additional record keeping and associated costs.

“Higher taxes can further impede the flow of resources into production, reducing economic growth. Such taxes can also increase relative prices and thus force consumers to make choices they otherwise would not make, undermining their well-being. Higher taxes are also associated with more onerous regulatory and tax enforcement costs.

“The bottom line is that the benefits associated with each dollar of additional federal spending must be worth far more than a dollar in order to cover the full economic cost. Continual federal spending growth will tend to impose heavy costs on the economy, while a growth-oriented economic policy can reduce excess costs by reducing the burden of taxation on the economy,” Saxton concluded.

For a copy of the new study, *Hidden Costs of Government Spending*, please visit our website at www.house.gov/jec.

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