CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
May 21, 2001

Press Release #107-25
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MODERATION IN GOVERNMENT SPENDING PROMOTES ECONOMIC GROWTH

-- Federal Spending Restraint Boosts Productivity and Income Growth --

WASHINGTON, D.C. – Restraint in federal spending over time increases labor productivity, economic growth and household wealth, while lowering poverty, according to a new study released today by Joint Economic Committee Chairman Jim Saxton. The study, *Wealth and Poverty Revisited*, is an econometric analysis of the relationship between the magnitude of government spending and productivity, wealth, output, and income.

The study also draws on the economic literature showing that excessive taxation can exact deadweight losses on the economy amounting to about 40 cents per additional dollar, with some estimates ranging even higher. In addition, the study notes the tendency of surplus revenues to be dissipated in new government spending.

"This study documents the economic benefits of moderation in federal spending and taxation," Saxton said. "By avoiding excessive expenditure and taxation, more resources are made available for private sector growth, while incentives are provided for efficient allocation of these resources. Additional resources and efficiency will increase economic growth and raise the standard of living, while helping improve the opportunities available to the least fortunate and reducing poverty.

"Previous Committee research has demonstrated that government spending adds to the economy up to a point, but beyond a certain level imposes greater costs than benefits. Federal spending as a share of the economy currently is above its optimal level, but an optimal level could be reached in the relatively near future. Fortunately, it appears that bipartisan agreement on tax policy will limit the prospects of a federal spending surge in coming years that might otherwise undermine future economic prosperity. The benefits from this policy of tax and spending restraint will compound over time with an economy expanding at a faster pace than it otherwise would," Saxton concluded.

The study's findings include:

- An increase in government spending as a share of GDP of one percentage point would reduce annual GDP growth by about half a percentage point annually.
- The evidence is stronger that federal spending increases have an adverse economic effect than do State and local spending increases.
- Restraint in government spending is correlated with higher labor productivity. In addition, international comparisons show that nations with lower government spending burdens tend to have higher labor productivity.
- A one-percentage point reduction in government spending as a share of GDP would increase GDP growth by half a percentage point annually, and reduce the unemployment rate by one full percentage point.
- Restraint of government spending increases is associated with lower poverty rates.
- The excess marginal costs imposed on the economy for each additional dollar of tax is about 40 cents.

For more information on the optimal size of government please visit our website at www.house.gov/jec.

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