

EXTRA POINT

February 1998

Statistics and the Role of Government

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The President has released his Fiscal Year 1999 budget amid swirling stories of budget surpluses. This would be a great time for a national debate on the appropriate activities of the federal government. This debate would tell us not only whether we are spending too much or too little, but, more importantly, whether we are spending correctly to meet some set of carefully delineated objectives. Unfortunately, this seems too complex an issue right now. So instead, we watch our leaders toss largely irrelevant statistics at each other.

The ratio of spending to GDP tells us very little about whether government is "big" or not. It says nothing at all about the appropriate size of government.

One such statistic is the ratio of government spending to gross domestic product (GDP). This figure, which currently stands at 19.8 percent, has fallen below 20 percent for the first time since the mid-1970s. And even with the President's many proposed spending increases, the Office of Management and Budget predicts that the ratio of total federal spending to GDP will fall to 18.6 percent by the year 2003.

These developments really have conservatives wrapped around the axle. You might think that they would be jumping for joy, but instead they complain that the era of big government is alive and well. How can both statements be true at the same time? How can

the ratio of federal spending to GDP be falling, and yet the era of big government continue to reign?

Simple. The ratio of spending to GDP tells us very little about whether government is "big" or not. It says nothing at all about the appropriate size of government.

Suppose GDP were to double over the next ten years, and yet federal spending were held constant as additional expenditures for national parks and basic operations were funded out of reduced expenditures due to declining welfare rolls. The ratio of spending to GDP would then be cut in half. But would government's role in society have been reduced? No.

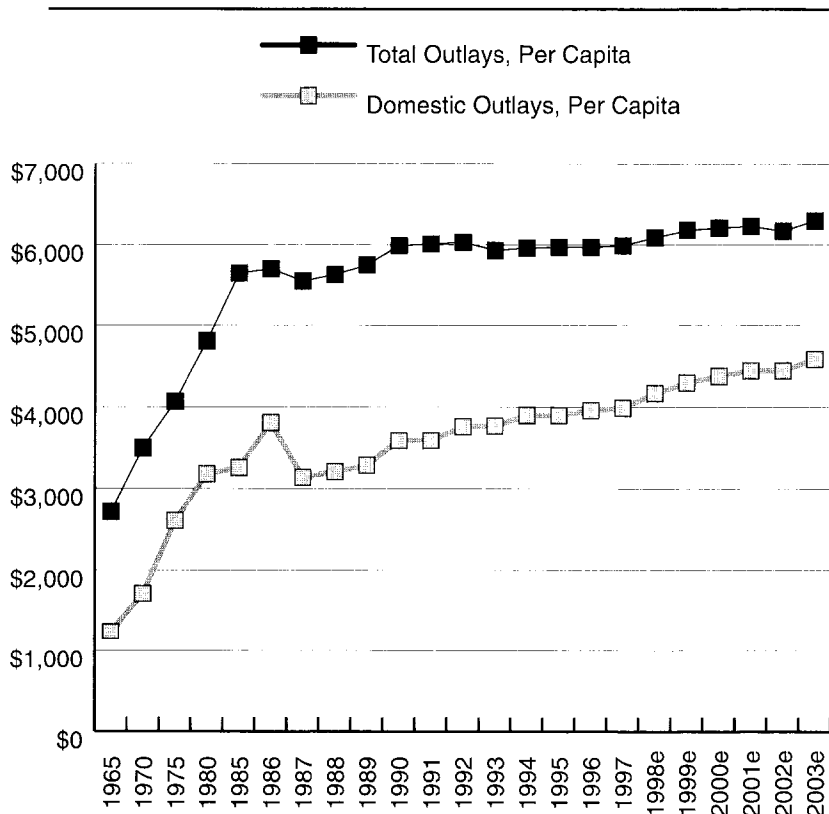
Now suppose that GDP and government spending each doubled over the next 10 years, and that population growth was minimal. The ratio of spending to GDP would then be constant, but spending per capita would have essentially doubled and government's role in society would be vastly greater.

The ratio of government spending to GDP is only useful in depicting the size of the claim government is laying on the economy. Government spending represents resources not available to the private sector. When spent by government, these resources sometimes yield real value to society. Sometimes they don't. When they do not, they represent a net drain.

Politicians and pundits like to use historical comparisons of past spending to GDP to make their arguments. But this comparison is useful only to the extent it gives us comfort in the knowledge that the current level of spending relative to the size of the economy is unlikely to sink the economy.

Yet there is a statistic that can capture in a meaningful way the change over time in the size of government: real per capita spending. The one sense in which government can be

Total and Domestic Real Per Capita Federal Spending, FY 1965–2003



Source: Tax Foundation calculations based on OMB data.

said to be “big” or not is relative to the number of the governed. In 1998 total federal spending per capita will be about \$6,090. That is, the government will spend about \$6,090 per person for every man, woman, and child in America. The chart above puts this figure into historical perspective.

As this chart shows, real per capita spending has hovered around a fairly narrow range of from \$5,930 to \$6,030 between 1990 and 1997, when measured in 1997 dollars. Per capita spending jumped in the last years of the Bush Administration. It jumped dramatically, from about \$4,810 to \$5,630 during the Reagan Administration, reflecting the defense buildup. It also jumped significantly during the Carter years. Looking into the future, the President’s budget projects an increase in real government spending of about \$210 per capita between 1998 and 2003.

The chart of per capita spending shows clearly the steady growth in government relative to the nation’s population. And it shows that this climb is no respecter of

political parties. It has climbed under every recent Republican and every Democratic administration. Real per capita spending currently stands at more than twice the figure from the Johnson Administration.

Some might argue that this understates the case, because defense spending has declined dramatically in recent years. Indeed, defense spending has declined in nominal terms from a high of \$319 billion in fiscal year 1991 to \$265 billion today. Adjusting for inflation, the decline has been even greater. Yet about two-thirds of these savings are absorbed every year in higher net interest expense. For purposes of comparison, the chart also includes real per capita domestic spending, where domestic spending is defined as total spending less spending on defense, interest expense, and international programs. These figures track those for total spending sufficiently well that there is little to be gained by emphasizing them.

With deficit politics behind us for now and the prospect of surpluses ahead, this is a good time for a line-by-line re-evaluation of government spending. As we do so, there are certain to be areas where we are spending too little, and it’s even more certain that there are areas where we spend far too much. Once such an analysis has been completed and put into effect through legislation, then and only then can we tell if we were spending too much or too little.

To the extent historical guides are of any use, per capita government spending shows a steady increase in the role of government. This historical comparison either tells us we spent way too little in the past, we’re spending way too much today, or perhaps both were just right and our goals for government have changed. In any case, we’ll never know as long as the debate is reduced to fusillades of meaningless statistics.

EXTRA POINT is published by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia. The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has monitored tax and fiscal activities at all levels of government since 1957.

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