

"Government Spending"

Wikipedia

"Public Purse" redirects here. For the term used in relation to the British monarchy, see Privy Purse.

Government spending or **government expenditure** ^[1] is classified by economists into three main types.^[2] Government acquisition of goods and services for current use to directly satisfy individual or collective needs of the members of the community is classed as government final consumption expenditure. Government acquisition of goods and services intended to create future benefits, such as infrastructure investment or research spending, is classed as government investment (gross fixed capital formation), which usually is the largest part of the government gross capital formation ^[3]. Acquisition of goods and services is made through own production by the government (using the government's labour force, fixed assets and purchased goods and services for intermediate consumption) or through purchases of goods and services from market producers. Government expenditures that are not acquisition of goods and services, and instead just represent transfers of money, such as social security payments, are called transfer payments. Government spending can be financed by seigniorage, taxes, or government borrowing.

The first two types of government spending, namely government final consumption expenditure and government gross capital formation, together constitute one of the major components of gross domestic product.

John Maynard Keynes was one of the first economists to advocate government deficit spending as part of the fiscal policy response to an economic contraction. In Keynesian economics, increased government spending is thought to raise aggregate demand and increase consumption, which in turn leads to increased production. Keynesian economists argue that the Great Depression was ended by government spending programs such as the New Deal and military spending during World War II. According to the Keynesian view, a severe recession or depression may never end if the government does not intervene.

Classical economists and Austrian economists, on the other hand, believe that increased government spending exacerbates an economic contraction by shifting resources from the private sector, which they consider productive, to the public sector, which they consider unproductive. According to Austrian economists, the reason the Great Depression lasted as long as it did was because of significant government spending and government regulation of the economy.

United States of America

Government spending in the United States of America occurs at several levels of government, including primarily federal, state, and local governments. The United States Census Bureau publishes an overview of government spending every year in the Statistical Abstract of the United States^[4]

In the most recent year for which actual spending for all levels of government has been reported, overall government spending for all levels of government in the United States of America was as follows:

United States Federal, State, and Local Government Spending Fiscal Year 2006 ^[5]		
Function	Amount (billion)	Percent GDP
Overall government spending		
Federal, State, Local	\$4,704.1	36.1
Spending by major government function		
Pensions	\$747.1	5.7
Health Care	\$783.8	6.0

Education	\$900.8	6.9
Defense	\$622.2	4.8
Welfare	\$411.4	3.2
Interest	\$312.3	2.4

Government spending expressed as a percent of Gross Domestic Product is based on a total of \$13,015.5 billion for calendar year 2006 reported by the Bureau of Economic Analysis^[6].

Federal Spending

As of September 2004 the U.S. Congressional Budget Office reported that federal government spending for 2004 was projected to be \$2.293 trillion, or slightly less than 20% of the GDP. Of that, \$159 billion was for net interest, \$486 billion for defense, \$492 billion for Social Security, \$473 billion for Medicare and Medicaid, \$191 billion for various welfare programs, \$136 billion for "retirement and disability" benefits, and \$64 billion was projected to be spent elsewhere.

There are two types of government spending — discretionary and mandatory. Discretionary spending, which accounts for roughly one-third of all Federal spending, includes money for things like the Army, FBI, the Coast Guard, and highway projects. Congress explicitly determines how much to spend (or not spend) on these programs on an annual basis. Mandatory spending accounts for two-thirds of all government spending. This kind of spending is authorized by permanent laws. It includes "entitlements" like Social Security, Medicare, and Food Stamps — programs through which individuals receive benefits based on their age, income, or other criteria. Spending levels in these areas are dictated by the number of people who sign up for these benefits, rather than by Congress.

State and Local Spending

The United States Census Bureau conducts a census of State and Local Government Finances^[7] every five years and updates the census every year. The latest fiscal year reported by the Census Bureau is 2006.

History

The United States Census Bureau publishes historical data series on government spending in the United States in its Statistical Abstract of the United States^[8] and in its special release of historical statistics in 1976 at the time of the US Bicentennial.^[9]

Over the last century starting overall government spending in the United States has increased substantially from about seven percent of GDP in 1902 to about 35 percent of GDP in 2010. Major spikes in spending occurred in World War I and World War II.

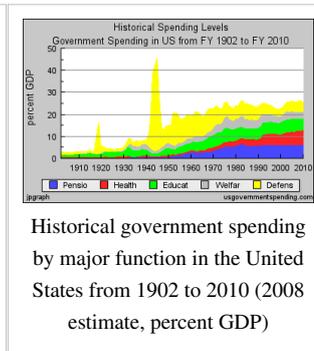
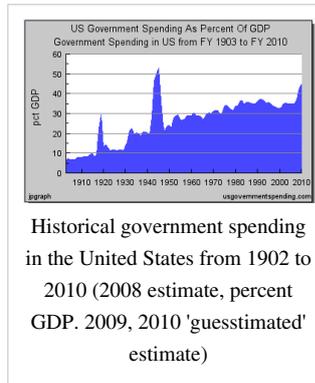
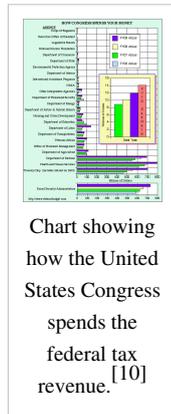
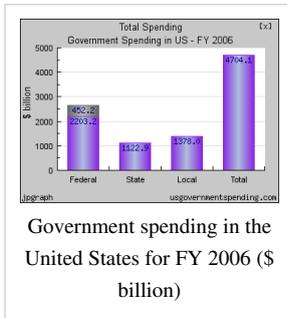
When broken down by major function, the history of government spending as a percent of GDP shows a slow and consistent increase in education spending; it shows the spikes in defense spending during World War I and World War II, and the sustained high level maintained during the Cold War. Spending on welfare shows a clear takeoff during the Great Depression and a modest decline following reform in 1996. Spending on pensions (primarily Social Security) begins to show up in the 1950s. Health care spending takes off after the birth of Medicare and Medicaid in the 1960s and shows sustained growth ever since.

Spending Patterns

Divided vs. United Government

In an interview with Charlie Rose, Milton Friedman noted that government spending declines fastest in the United States when Democrats control the executive branch while Republicans control the legislature.

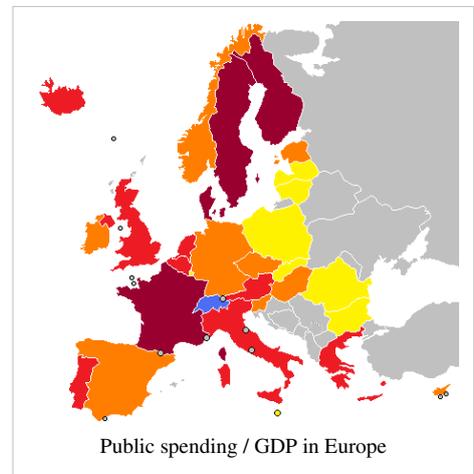
Referencing accounts from the Bureau of Economic Analysis and the voting record, it can be seen that spending typically declines as a percentage of GDP when no party controls both the executive and legislative branches.



Public spending in Europe

References

- [1] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Government_revenue_and_expenditure
- [2] Robert Barro and Vittorio Grilli (1994), *European Macroeconomics*, Ch. 15-16. Macmillan, ISBN 0333577647.
- [3] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Gross_capital_formation
- [4] Statistical Abstract of the United States of America (<http://www.census.gov/compendia/statab/>)
- [5] Overall Government Spending 2006 (http://www.usgovernmentspending.com/year2006_0.html)
- [6] Current-dollar and "real" GDP (<http://www.bea.gov/national/xls/gdplev.xls>)
- [7] <http://www.census.gov/govs/www/estimate.html>
- [8] Statistical Abstract of the United States (<http://www.census.gov/compendia/statab/>)
- [9] Bicentennial Edition: Historical Statistics of the United States, Colonial Times to 1970, Part 2 (<http://www2.census.gov/prod2/statcomp/documents/CT1970p2-01.pdf>)
- [10] Federal Budget Spending and the National Debt (<http://www.federalbudget.com>)



External links

- The Concise Encyclopedia of Economics (CEE) (<http://www.econlib.org/Library/Enc/GovernmentSpending.html>)
- OECD Government spending statistics (http://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE11)

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