FINANCIAL TIMES

March 4, 2013 10:51 pm

Spending and enhancing growth

From Prof Dennis Leech.

Sir, Ryan Bourne and Tim Knox (Letters, February 22) claim: “Most government spending goes to consumption spending and transfers. These are not growth-enhancing – and ... empirical evidence suggest[s] strongly that, for a developed economy like the UK, it is cutting these that will boost medium-term growth rates.” This cannot be allowed to go without a rebuttal.

The firm evidence is that there is no relation between the ratio of government spending to gross domestic product in developed countries and the rate of economic growth. For example, the latest (2011) OECD figures show that the Netherlands, Denmark, Hungary, France, Belgium, Austria, Finland and Sweden all had a higher ratio of general government spending to GDP and grew faster than the UK.

Dennis Leech, Professor of Economics, University of Warwick, UK