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CLEVELAND: 2912 EUCLID AVENUE • CLEVELAND, OHIO, 44114 • TEL: 216/361-9801 • FAX: 216/361-9810
COLUMBUS: 1372 GRANDVIEW AVE. SUITE 242 • COLUMBUS, OHIO, 43212 • TEL: 614/486-4601 • FAX: 614/486-4603
HTTP://WWW.POLICYMATTERSOHIO.ORG

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Contact: Jon Honeck 614-486-4601
Read the report: http://www.policymattersohio.org/state_economic_growth_2006.htm

Reducing the public sector does not boost state economic growth

The size of a state's public sector is not correlated with private sector growth, according to a new analysis that compares trends in inflation-adjusted, per capita gross state product (GSP) between 1990 and 2004 for all states. *State Economic Growth and the Public Sector*, the new report from Policy Matters Ohio, demonstrates that the spending limitation adopted by the legislature in May is unlikely to foster economic growth. Other findings include:

- There is no evidence of a tradeoff between the size of states' public sectors and private sector growth. Across all states, the average state and local government share of total GSP showed a positive association with private sector GSP growth per capita in the 1990-1997 period, and no association in the 1997-2004 period.
- There is no evidence of a tradeoff between public sector growth rates and private sector growth. Across all states, increases in state and local government GSP per capita showed a positive association with changes in private output in both the 1990-1997 and 1997-2004 periods.
- States with expanding public sectors experienced more rapid private sector growth, on average, than did states that reduced their public sectors. This result occurred in both the 1990-1997 and 1997-2004 periods. States with expanding public sectors had private sector growth, on average, of 19.6 percent in the earlier period and 16.9 percent in the latter period. States with shrinking public sectors had private sector growth, on average, of 11.6 percent in the earlier period and 11.7 percent in the latter period.
- Ohio's private sector grew faster than its public sector over the 1990 to 2004 period. This trend occurred even in the latter half of the time period, when the state experienced a recession and a weak recovery. From 1997 to 2004, Ohio's state and local government GSP per capita increased by 6.4 percent, while private sector GSP per capita increased by 10.5 percent. As a consequence, the public sector's share of Ohio's economy declined over time.

"Ohio will not receive any economic rewards for arbitrarily restraining its public sector," said Jon Honeck, report author and Policy Matters Research Analyst. "The size of the public sector and the growth of the public sector simply do not explain much of the variation among states in private sector growth. The legislature should not dismiss the needs of Ohio's citizens for essential public services on the basis of a false premise."

Policy Matters Ohio is a non-profit, non-partisan policy research institute.