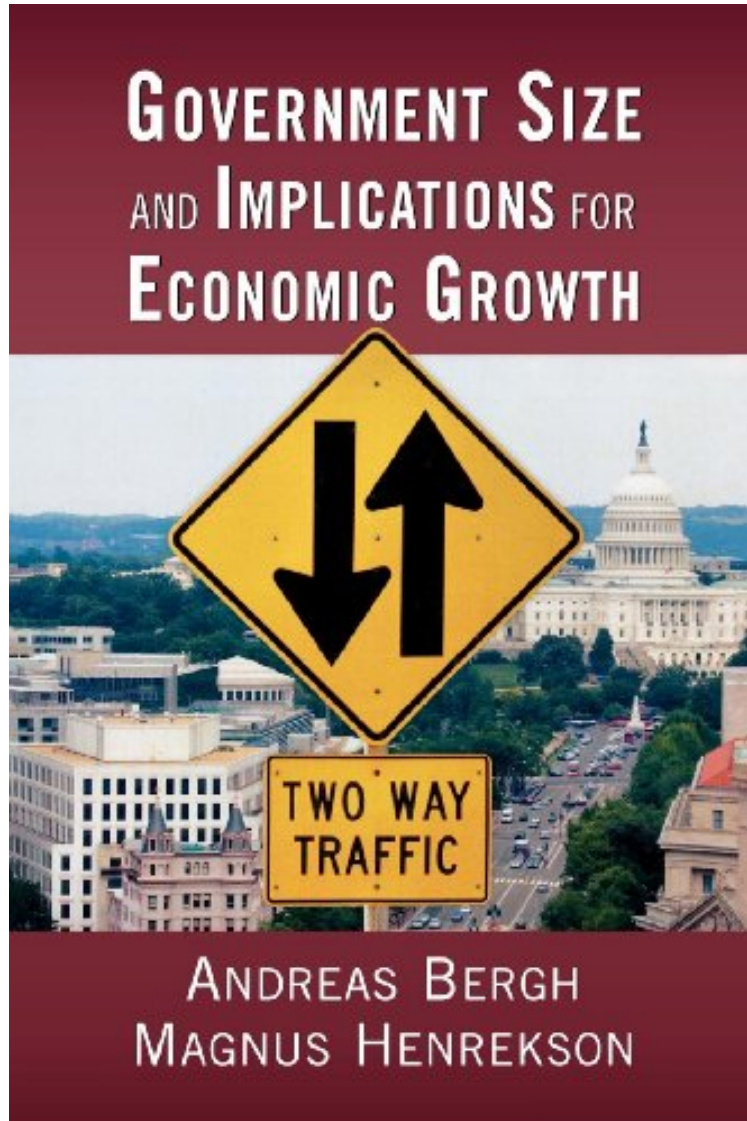


Government Size and Implications for Economic Growth

Andreas Bergh, Magnus Henrekson

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Andreas Bergh, Magnus Henrekson : Government Size and Implications for Economic Growth before purchasing it in order to gage whether or not it would be worth my time, and all praised Government Size and Implications for Economic Growth:

1 of 1 people found the following review helpful. The economic effects of big governmentBy Winton BatesAndreas Bergh and Magnus Henrekson make a strong case that there is a robust negative correlation between government size and economic growth. They base that conclusion on a review of econometric literature using panel data for high-income countries. They acknowledge, however, that the issue of causation has not yet been completely settled.A question many readers are likely to have in the back of their minds is why the adverse implications of big government

have not caused Sweden to become an economic basket case. The authors attribute that to economic reforms that have had a positive effect on other aspects of economic freedom. In my view, elementary economic reasoning that tells us that economic costs of taxation rise approximately in proportion to the square of the tax rate provides a more powerful case against big government than the results of cross-country econometric studies. The authors mention that insight, but I was surprised that they attributed it to a Swedish economist, Jonas Agell, rather than to Arnold Harberger (or possibly even to Alfred Marshall). The chapter of the book I enjoyed most is the one discussing the effects of high taxation on the choice between income-earning activities and non-income-earning activities. Economists usually view this as a choice between work and leisure and some even argue that high tax rates are likely to make people happier by inducing them to enjoy more leisure with family and friends rather than working. In the real world, however, when people are not earning income much of their time is spent on unpaid household chores. I doubt whether people obtain much more pleasure from housework and weeding the garden than from working for pay. Bergh and Henrekson note that hours of unpaid work are substantially greater in Sweden than in the United States and that hours of paid work are correspondingly lower in Sweden than the United States. They attribute that to the effects of higher rates of labour taxation in Sweden, which provides an incentive for consumers to produce services themselves rather than to work longer hours in order to purchase them in the market place. The authors also provide evidence that average hours worked in Sweden were substantially higher than in the United States during the 1950s, when Sweden's tax rates were much lower. Anyone interested in the economic effects of big government should read this book.

As economists and policymakers strive to understand the causes of the global financial crisis, pinpointing the relationship between government size and economic growth is crucial. In this incisive economic study, Andreas Bergh and Magnus Henrekson find that in wealthy countries, where government size is measured as total taxes or total expenditure relative to GDP, there is a strong negative correlation between government size and economic growth—where government size increases by 10 percentage points, annual growth rates decrease by 0.5 to 1 percent. Bergh and Henrekson stress that statistical correlations, even when highly significant, are not law. Some countries with high taxes enjoy above-average growth, and some countries with small governments have stagnant economies. The Scandinavian welfare states, for example, have enjoyed steady growth over the last decade despite their large governments. However, these nations compensate for high taxes by employing market-friendly policies in other areas, such as trade openness and inflation control. *Government Size and Economic Growth* concludes that, in every case, economic freedom is a crucial determinant of economic growth—suggesting that government intervention in the marketplace may be the wrong approach to solving the economic crisis.

About the Author Andreas Bergh is a researcher and teacher in the School of Economics and Management at Lund University and a research fellow at the Ratio Institute. Magnus Henrekson is Jacob Wallenberg Professor Economics at Stockholm School of Economics and director of the Research Institute of Industrial Economics.