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21 Aug 2009 11:07 am

Do Big Governments Mean Big Recessions?by *Conor Clarke*

Alan Reynolds of the Cato Institute has an [op-ed in this morning's Wall Street Journal](#) making the sweeping argument that "bigger governments lead to bigger recessions," and thus cannot and should not help alleviate recessions.

His assembled evidence doesn't really pretend to be scientific. (It consists of a few historical anecdotes alongside data showing the size of government and the depth of recession in a bunch of OECD countries and a couple of developing nations, selected on the basis of I don't know what.) And there's no particular reason to think Reynolds' single, lonely measure of a recession (decline in GDP) is the best. (There is, for example, the change in employment, which would make for a very different international comparison.)

But let's charitably assume Reynolds' data magically ascends to the level of an incontestable biblical truth: Nations with bigger governments experience longer and deeper recessions. And now let's think about just how little this would prove.

First, all statistical joykills are fond of pointing out that correlation does not equal causation. Even if it were true that there was a tight historical correlation between the size of governments and the length of recessions, this would not prove that big governments cause (or "produce" in Reynolds' parlance) longer recessions. It could be the case that longer recessions produce bigger governments. Or it could be the case that some third factor produces both. A statistically significant relationship between the size of government and the length of recession is no more proof that one causes the other than is a statistically significant relationship between [global temperature](#) and the number of pirates.

Second, even if there were a causal connection between the the size of government and the length of recession, this wouldn't prove Reynolds' second point: that government spending cannot alleviate a recession. Even if you think government is the worst invention since the death panel, you should still be open to the proposition that government fiscal policy can make up for losses in aggregate demand. (And, indeed, 90% of economists [believe exactly that.](#))

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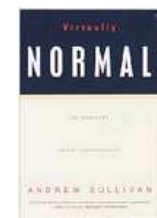
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