

The "Rahn Curve" Shows Government Is Far too Big

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President Bush was a big spender, but President Obama is taking profligacy to the next level.

In his first year in office, Obama pushed through a [pork-filled "stimulus"](#) that was supposed to increase jobs and prosperity (at least according to the [discredited Keynesian theory](#)). Instead, the economy has been weak and unemployment has increased. In his second year in office, Obama rammed through a giant new healthcare entitlement, in part based on the [absurd claim that bigger government would reduce red ink](#) (the Congressional Budget Office should be abolished for aiding and abetting that fraud). Over the weekend, we witnessed the amazing spectacle of Obama actually getting to the left of Europe's socialist leaders and [arguing with them at the G-20 summit that government spending should be even higher](#).

Unfortunately for taxpayers, government already is too big, and that is true on both sides of the Atlantic Ocean. This [new Center for Freedom and Prosperity video](#) explains that there is a spending version of the [Laffer Curve](#) (which shows the relationship between taxation and revenue) known as the Rahn Curve. And it shows that government is much larger than the "growth-maximizing" level. [As shown in the mini-documentary](#), academic research reveals that government spending should consume only 20 percent of gross domestic product. Thanks to the Bush-Obama spending spree, however, total government spending in America now amounts to about 40 percent of economic output.

It is quite likely, by the way, that the real growth-maximizing level of government spending is much lower than 20% of GDP. As noted in the video, the academic research is constrained by a lack of data for nations with small government. Free-market jurisdictions such as Hong Kong and Singapore enjoy the fastest growth, and they both have public sectors that consume about 20 percent of economic output, so it should come as no surprise that scholars conclude that growth is maximized when government is about that size.

But what if there were nations with smaller levels of government? Indeed, [the video](#) shows that most nations in North America and Western Europe did have very small governments in the 1800s and early 1900s - often amounting to less than 10% of GDP. Does anyone actually think that the United States would have grown faster 100 years ago if the burden of government spending was doubled?

We'll never know the answer to that rhetorical question, but one thing we surely know is that government today is far too large. It doesn't really matter whether the growth-maximizing level of government is 10% of GDP or 20% of GDP. We have a bloated public sector today that is consuming 40% of GDP and the [long-run projections indicate that the problem will get much worse](#) because of entitlements and demographic changes.