

## CHANGE IN PUBLIC SECTOR SHARE AND ECONOMIC GROWTH

In an earlier article in this journal (DICE Report 1/2003, p. 46–7), the development of the public sector share in percent of GDP from 1960 until 2001 was examined for 21 OECD countries. These countries, it was shown, can be easily classified as “early” and “late” reformers. All of them, with the exception of Japan, reduced their public sector share after a peak had been reached. This turning point occurred either in the early 1980s (early reformers) or in the middle of the 1990s (late reformers).

A comparison of the development of the public sector share of the same group of countries for the same period to that of the GDP growth rate can also be made. The question – important for economic policy-making – of whether a causal link exists between reducing the public sector share and higher (or perhaps lower) economic growth (or a higher public sector share and lower – or perhaps higher – growth) is not addressed here. Instead, we only look for coincidences.

As in the previous article, averages over three-years periods (not moving) are used in order to smooth the annual fluctuations. On the basis of this, a very simple method is employed. For each group of successive (three-years) periods it is noted a) in which direction the public share has changed and b) in which direction the GDP growth rate has changed. The changes of the two variables might be either in the same direction or in opposite directions. (A third case occurs when there is practically no change in both variables or when data are missing.) If the former is the case, a higher (lower) public share coincides with a higher (lower) GDP growth rate. If the latter is the case, a higher (lower) public share coincides with lower (higher) growth. If the latter pattern occurs – or even prevails – it might be worthwhile to look for evidence for the existence of a causal link (as several authors have already done).

The table contains the rather straightforward results of the exercise: In more than two thirds of all cases public share and growth rate develop in opposite directions. With two exceptions (United

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	Number of 3-years periods between 1960 and 2001 for which the change of public sector share and the change of GDP growth rate go into:		
	opposite directions	the same direction	undecided, no data
Australia	7	7	0
Austria	12	1	1
Belgium	8	3	3
Canada	11	3	0
Denmark	6	5	3
Finland	9	5	0
France	11	2	1
Germany	11	3	0
Greece	7	4	3
Ireland	8	3	3
Italy	9	5	0
Japan	11	3	0
Luxembourg	6	4	4
Netherlands	8	3	3
Norway	9	5	0
Portugal	9	2	3
Spain	5	4	5
Sweden	11	3	0
Switzerland	5	1	8
United Kingdom	4	7	3
United States	9	5	0
Sum	176	78	
Average	<b>8.4</b>	<b>3.7</b>	
Percentage of all cases	<b>69.3 %</b>	<b>30.7 %</b>	

Source: OECD Macroeconomic Data, 2002, own calculations.

Kingdom, Australia), the number of “opposite developments” is larger in each country than the number of “same directions developments”. In Austria, Canada, France, Germany and Japan, the number of “opposite developments” is even considerably larger than the number of “same directions developments”.

If one performs the exercise separately for early and late reformers (not shown in the table), one sees that – interestingly – the number of “opposite developments” is especially pronounced in the group of late reformers.

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