PHOENIX CENTER FOR ADVANCED LEGAL & ECONOMIC PUBLIC POLICY STUDIES
www.phoenix-center.org

5335 Wisconsin Avenue, NW
Suite 440
Washington, D.C. 20015-0234
Tel: +1 (202) 274-0235
Fax: +1 (202) 318-4909
www.phoenix-center.org

Press Release

Contact: Lawrence J. Spiwak
Phone: +1 (202) 274-0235

FOR IMMEDIATE RELEASE
Tuesday - November 1, 2011

New Phoenix Center Analysis of Fifty Years of U.S. Economic Data Finds that Government Spending has Zero Effect on Private-Sector Job Creation During Economic Slumps

Policies that Encourage Private-Sector Investment are Key to Recovery

WASHINGTON, D.C. — In a new study released today entitled: *Can Government Spending Get America Working Again? An Empirical Investigation,* the Phoenix Center finds that government spending has zero effect on private-sector job creation in periods of economic sluggishness.

With unemployment still at record highs and expected to remain so for the foreseeable future, the Phoenix Center looks at fifty years of data to examine the effectiveness of government spending on private-sector job growth. Rather than contemplate the average or typical effect of government stimulus on private-sector jobs, the study divides the past fifty years of U.S. economic history into low-growth and high-growth periods. The Center then applies a non-linear, two-regime model to study whether the stimulus effects on private-sector jobs of government and private investment differ between recessionary and expansionary periods.

The Phoenix Center finds that during periods of economic sluggishness, government spending has zero effect on private-sector job creation. This result is consistent with the apparent impotence of huge federal government spending increases in recent times aimed at reducing unemployment. In contrast, when it comes to job growth, expansions in private investment are effective at creating jobs in both good and bad economic times, but the efficacy of private investment is greater during periods of slow economic growth. By implication, policies that discourage private investment may have severe job-killing effects during economic downturns, since it is during the low growth periods that jobs are most responsive to increases in private investment. In light of these results and the evident failure of government stimulus to restore economic growth, the Phoenix Center finds that job creation appears best served, under present economic conditions, by policies that encourage efficient private-sector investment such as tax and regulatory relief.

"Our study confirms from fifty years of economic data what most Americans already know firsthand," said Phoenix Center President and study co-author Lawrence J. Spiwak. "Government can't spend the country into prosperity. Instead, if we want to create more jobs, then we need to enact policies such as tax and regulatory reform to get the private-sector investing in America once again."

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"The response of jobs to spending, whether by the government or by the private sector, differs between periods of economic expansion and economic sluggishness," adds Dr. George S. Ford, Phoenix Center Chief Economist and co-author of the study. "When the economy is lethargic, as it is now, we find that government spending has no effect on private-sector job creation, but at the same time, private investment is more potent than ever. The implication seems clear—the government needs to focus on private-sector recovery. By most accounts, including President Obama's, this means significant reform of the nation's regulatory bureaucracy."

In addition to Mr. Spiwak and Dr. Ford, Phoenix Center Senior Fellows and Auburn University Professors of Economics Dr. T. Randolph Beard and Dr. Hyeongwoo Kim also co-authored the paper.

The complete copy of the study, PHOENIX CENTER POLICY BULLETIN NO. 31: *Can Government Spending Get America Working Again? An Empirical Investigation,* may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/PolicyBulletin/PCPB31Final.pdf.

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