Joint Economic Committee Republicans
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The Line-Item Veto and the American Economy

The economic case for giving the President line-item veto authority rests on two facts: The Federal government spends too much, and the legislative process is biased in favor of spending increases.

Beyond a minimum level, government spending stifles economic expansion, crowds out private investment, slows productivity growth and retards job creation. Consistent results from empirical studies reveal that once total government spending in the United States exceeds about 18 to 20 percent of GDP, it has detrimental economic consequences.

Between the end of the World War II and the mid-1970s, annual real economic growth averaged about 3.5 percent in the U.S. Today, there is a consensus that the long-run real economic growth rate does not exceed about 2.5 percent. Annual productivity growth rates between 1950 and the mid-1970s were in the range of 3.0 to 3.5 percent. Today, productivity growth averages about 1.0 percent a year.

A growing body of economic research indicates that the underlying cause of this fall off in economic performance is the growth in the size of government. During the post-war era, while total federal revenues as a share of GDP deviated little from about 19 percent, spending has risen continuously, averaging 18 percent in the 1950s, 19 percent in the 1960s, 21 percent in the 1970s and 23 percent in the 1980s and 1990s. Combined state, local and federal spending has gone from about 25 percent of GDP in 1950 to 34 percent today.

For 25 consecutive years, Congress has been unable to reverse the growth of Federal spending and pass a balanced budget. **The goal of the line-item veto is to fundamentally change the budget process in favor of spending restraint.** Line-item veto authority would give the President the means to break the spending trap known as the "pork barrel" in which Congress funds myriad programs that confer benefits on special interests and narrow constituencies but which have no significant national purpose or justification.

The experience of the states is illustrative. Forty-three governors currently enjoy some form of the line-item veto. According to a 1989 study by the Heritage Foundation, the use of the line-item veto in those states decreases expenditures by an average of 1.5 percent. **If the line-item veto were to have a similar impact on Federal spending today, the budget deficit for 1995 would be almost $23 billion less.**

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Sources: Council of Economic Advisers, *Economic Report of the President 1994*; Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1996-2000, A Preliminary Report"; *Congressional Digest*, "State Veto Procedures," February, 1993, pp. 40-2; Scully, Gerald, W. "What Is the Optimal Size of Government in the United States?," National Center for Policy Analysis, November 1994; Peden, E.A. "Productivity in the United States and Its Relationship to Government Activity: An Analysis of 57 Years, 1929-1986," *Public Choice*, 1991, Vol. 69, pp. 153-73; Peden, E.A. and Bradley, M.D. "Government Size, Productivity and Economic Growth: the Post-War Experience," *Public Choice*, 1989, Vol. 61, pp. 229-45; Grossman, P.J. "The Optimal Size of Government," *Public Choice*, 1987, Vol. 56, pp. 193-200.