The Composition of Government Spending and Growth
by
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Abstract

This paper constructs an exogenous growth model in which the government provides productive services and a utility enhancing service (unproductive service). The results indicate that a country's growth rate can be increased by altering the composition of government spending, while holding total spending constant. The model is tested empirically using a cross country regression analysis on data from the period 1990-2011. The results show that the composition of spending that is related to growth overall may not be the optimal composition of spending related to growth for the poorest in the population. This may reflect the possibility that certain government services are conditional on the household having a low income, even while these services remain financed by a distortionary tax levied on the entire population. An alternative interpretation may be the existence of different private production functions for rich and poor households.