

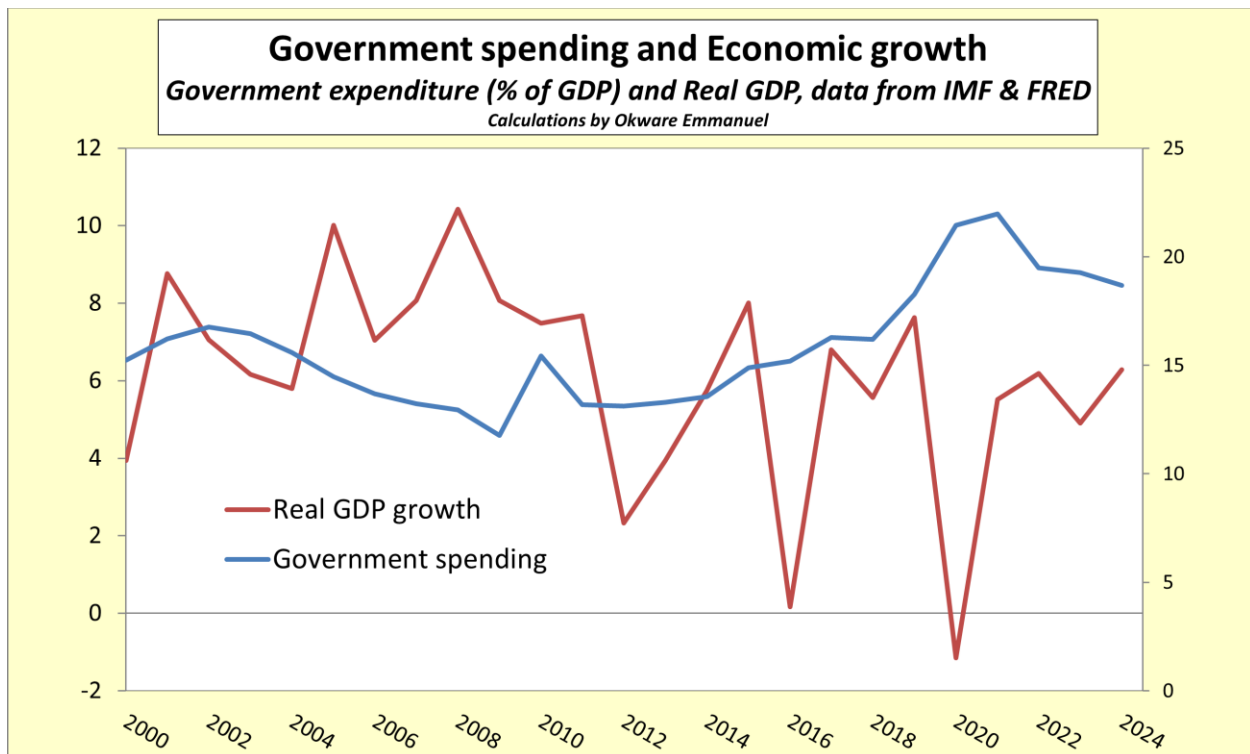
# The search for prosperity must look elsewhere, not to government spending

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The belief that higher government spending drives economic growth remains one of the most persistent ideas in policy circles. Keynesian theory holds that spending on infrastructure, subsidies, or relief raises demand, multipliers kick in, and GDP expands. Yet Figure 1, using IMF and FRED data from 2000 to 2024, tells a different story. Figure 1 shows real GDP growth (red line, left axis) and government expenditure as a percentage of GDP (blue line, right axis). The visual record is unmistakable: increases in the government's share of the economy do not produce faster or more stable growth. In many periods, they coincide with the opposite.

**Figure 1: Government Spending and Economic Growth**



Between 2000 and 2009, the blue line trended downward from roughly 7% to about 5% of GDP. During the same years, the red line delivered some of the strongest performances in the entire

series, repeatedly crossing 8% and peaking above 10% around 2008. Growth flourished while the state's share of national output shrank. After 2015, the pattern reversed. Government spending as a share of GDP rose steadily, surging past 10% around 2020-2021 amid pandemic-related outlays. Real GDP growth, however, became more volatile, turning negative in 2020 and failing to regain the sustained high rates seen when the spending ratio was lower. The two lines move independently at best, and inversely at worst.

The absence of correlation is not an anomaly; it reflects fundamental economic mechanisms. When the government spends more, it must finance that spending. Taxes directly reduce private consumption and investment. Borrowing raises interest rates, crowding out private capital formation. Even deficit-financed spending often fails the test of Ricardian equivalence: forward-looking households and firms anticipate future tax liabilities and save rather than spend the stimulus. The result is little or no net addition to aggregate demand.

Government spending also suffers from persistently low efficiency. Private investors allocate capital based on expected returns and market prices. Public projects are selected through political processes that reward visibility over productivity. Bureaucratic overhead, rent-seeking, and, in many settings, outright leakage further dilute the impact. Empirical literature, ranging from Robert Barro's cross-country regressions to the Rahn curve, consistently shows that beyond a modest threshold (often estimated at 15-25% of GDP for advanced economies and lower for developing ones), additional government spending begins to slow growth. Figure 1's blue line remains well below that zone yet still shows no dividend growth.

The policy implication is clear. Sustainable expansion does not come from increasing the state's share of the pie but from expanding the pie itself through higher productivity, private investment, and free markets. Sound property rights, low and predictable taxes, light regulation, and monetary stability have repeatedly proven more powerful than fiscal activism. The 2000 – 2024 record shows that the government can increase its share of spending without faster growth, and sometimes even while delivering slower or negative growth.

The data therefore refute the claim that government spending drives economic growth. This is not unique to Uganda. Higher government spending as a share of GDP is uncorrelated with, or

even inversely related to, stronger real GDP growth, a pattern broadly consistent with trends in developed economies, particularly in the OECD. Exceptions exist; some high-spending countries maintain decent growth thanks to efficient institutions or resource advantages. What drives growth is the productive activity of individuals and firms operating in an environment where incentives are aligned with results. The proper role of fiscal policy is restraint and predictability, not expansion.