

**WHY DOES GOVERNMENT GROW?
THE SOURCES OF GOVERNMENT GROWTH FROM PUBLIC CHOICE
PERSPECTIVE**

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ABSTRACT

Many empirical studies that examined the government spending concludes that the size and scope of government has grown considerably since the beginning of the twentieth century in most developed countries. If this is the fact, then we must ask and explore the following questions: Why does government grow? What are the main sources of government growth? What are the main reasons of the expansion of government? This introductory paper aims to answer those and other questions regarding government growth. The paper is mostly depend on public choice literature of government growth.

Key Words: government growth, size of government, expansion of government
JEL Classification: H11, H5, O47.

I. INTRODUCTION

This paper aims to explore the sources, reasons and consequences of government growth. Firstly, we are going answer the question “*why does the government continuously grow?*” and summarize the approaches and hypothesis in the literature. Later, we will discuss the problems caused by the excessive growth of government.

II. THE SOURCES OF GOVERNMENT GROWTH

The size of the government or the public sector is measured by the calculation of the total expenditures as a percentage of GDP or GNP. When the trend of government size is reviewed in developed, developing and under-developed

countries it is seen that public expenditures are always showing an increase. This paper excludes the empirical studies and aims to summarize the sources of government growth.

Theories on government growth are many in number and have a long historical past. Below the theories and opinions on government growth are summarized:¹

Wagner Law² : A German economist Adolph Wagner was the first to take the attention of economists on the increasing activities and expenditures of the government. Wagner discussed government growth firstly in one of his books he wrote in 1883. Following his study, many economists have carried out theoretical and empirical studies on government growth. In the present empirical studies, Wagner's hypothesis were mostly proved and Wagner's ideas were named as "*Wagner Law*" or "*The Law of Increasing Government Expenditures*" in the literature. The results of the present empirical studies generally put forward results that proved the Wagner Law.

According to this theory suggested by Adolph Wagner, public activities within the national economy increase mainly because of the following reasons:

- The government mainly increases its expenditures for establishing internal and external security and justice.
- The government increases its expenditures for education, health, etc. due to the demand of individuals for their own prosperity.

Abromowitz & Eliasberg Hypothesis³: Moses Abromowitz and Vera Eliasberg have reviewed the increase trend of public employment during 1890-1950 in England. In their studies, these two economists put forward that the war is one of the sources of increasing public expenditures and apart from this they suggested that industrialization also plays an important role in the increase of public expenditures.

¹ For a good summary of the sources of government growth, see: James T. Bennett & Manuel H. Johnson., *The Political Economy of Federal Economic Growth, 1959-1978*. College Station: Texas A-M University Pres. 1980.p.50-95.

² Adolph Wagner, "The Nature Of Fiscal Economy", in: Richard Musgrave – Alan Peacock (Ed.) *Classics in The Theory Of Public Finance*, New York: Mc Millan Co. Ltd.

³ M. Abromowitz and Vera F. Eliasberg. 1957. *The Growth of Public Employment in Great Britain*. Princeton University Press.

Downs Hypothesis⁴: According to Anthony Downs, for the finance of public expenditures if the benefit approach is not applied then the political authority will have the right to demand tax from people who do not directly benefit from public services. As a result, due to the application of the approach of the ability-to-pay principle, the government budget will become even greater.

Peacock-Wiseman Hypothesis (Displacement Effect)⁵: British economists Alan Peacock and Jack Wiseman have worked on the growth trend of public expenditures in England during 1890-1955. Peacock and Wiseman suggested that public expenditures during the mentioned period have continuously increased in England and this increase was displaced especially during the war and depression period. Peacock's and Wiseman's theoretical description is named as "Displacement Effect" in the literature.

Economic Theory of Bureaucracy⁶: Bureaucrats try to expand the budget (budget maximization) in order for their own benefit (benefit maximization) in the public sector. In short, bureaucracy are willing to expand the budget volume according to the demand of the political authority. William Niskanen and Gordon Tullock are the important economists who have developed this approach.

Olson Hypothesis⁷: Another hypothesis is developed by Mancur Olson. In Olson's opinion, interest groups are also effective in government growth. Especially economic interest groups try to obtain "economic transfers" by lobbying. For instance, the lobbying activities carried out in order to support

⁴ Anthony Downs, 1960. "Why The Government Budget Is Too Small In A Democracy", In: Edmund S. Phelps (Ed.) Private Wants And Public Needs, New York: W. W. Norton Co.; Anthony Downs, 1957. An Economic Theory of Democracy. Harper and Row. New York.

⁵ Alan T. Peacock and Jack Wiseman. 1961. The Growth of Public Expenditure in the United Kingdom. A Study by the National Bureau of Economic Research. National Bureau of Economic Research. Number 72. General Series. Princeton University Press.; Alan T. Peacock – Jack Wiseman, "Approaches To The Analysis Of Government Expenditure Growth", Public Finance Quarterly, Vol. 7, No: 1 1958; Alan T. Peacock – Jack Wiseman, 1980. The Growth Of Public Expenditure In The United Kingdom, New Jersey: Princeton University Press, 1961.

⁶ William Niskanen, 1971. Bureaucracy and Representative Government, Chicago: Aldine-Atherton.; Gordon Tullock, 1965. The Politics Of Bureaucracy, Washington D.C.: Public Affairs Press.

⁷ Mancur Olson [1971 (1965)]. The Logic of Collective Action: Public Goods and the Theory of Groups (Revised ed.). Harvard University Press

investments and exports through the demand of increasing subsidiaries has enabled the growth of the government.

Unbalanced Growth Hypothesis⁸: According to William Baumol economic activities can be divided into two as capital-intensive and labor intensive. Baumol states that since public services are actually based on labor-intensive characteristics, the high production costs and efficiency for per unit are low in the public sector. In short, according to Baumol one of the main reasons for the growth of government is because the economic activities of the government are labor intensive.

Director Law⁹: According to George Stigler political power is mostly in the hands of the majority. Therefore, the ruling party try to meet the needs of the median voters. In short, the director of the political process is the median voters. who has undertaken the main role of the increase in public expenses.

Oates Hypothesis¹⁰. In the opinion of William Oates, in order to achieve economical development, public policies may expand the economic activities of the government. Especially the central government concentrates on services such as transportation, communication, energy and infrastructure investments. Oates calls this effect which enables the growth of the government as “the effect of concentration”.

Low Efficiency Hypothesis¹¹: According to William Orzechowski, one of the reasons of the growth of government growth is the low rate of efficiency in the public sector in comparison to the private sector. Low efficiency causes more expenses in the public sector services.

⁸ William Baumol, 1967. “Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis”. *American Economic Review*. 57, 415-265.

⁹ George J. Stigler. 1970. “Director's Law of Public Income Redistribution”. *The Journal of Law & Economics*. Vol. 13, No. 1 (Apr.). pp. 1-10.

¹⁰ William E. Oates., *Fiscal Federalism*, New York: Harcourt Bruce Jovanovich,1972.

¹¹ William Orzechowski, “Labor Intensity, Productivity And The Growth Of The Federal Sector”, *Public Choice*, Fall-1974; William Orzechowski, 1977. “Economic Models of Bureaucracy: Survey, Extensions, and Evidence.” In Borcharding, T.E., ed. *Budget and Bureaucrats: The Sources of Government Growth*. Durham, NC: Duke University Press.

The Theory of Political Business Cycles¹²: According to the researchers who have carried out studies on political business cycles, government grows especially at times of election. As the time of the elections gets closer politicians tend to increase public expenditures.

Borcherding Hypothesis¹³: Thomas Borcherding, has investigated the public expenses in the USA during the years 1902-1970. According to his analysis he has estimated that the population increase affects the growth of the government by 25 %, inflation by 12 % and the increase in GDP by 25 %. He concludes that GDP growth, population growth and high inflation are very much related with government size.

Buchanan Hypothesis¹⁴: Factors such as the increase in population, urbanization, changes in the economic structure, inflation, etc. play a role in the growth of the government. According to Nobel Laureate James M. Buchanan, politicians who try to maximize their votes often finance the increasing public expenditures via money creation and borrowing. According to Buchanan, government also grows due to “fiscal illusion”. The unawareness of tax payments increases the demand of taxpayers for public services. Consequently, the increase in the demand of public goods and services causes public expenses to expand.

Meltzer-Richard Hypothesis¹⁵: According to the economists Alan H. Meltzer and Scott F. Richard the displacement effect is not enough to explain the growth of government. Public expenditures increase under normal conditions too when there is no war. The government increases its defense expenses especially in cold war.

¹² William D. Nordhaus, 1975. "The Political Business Cycle," *Review of Economic Studies*, Vol. 42 (2) pp. 169-90. ; William D. Nordhaus, 1989. "Alternative Approaches to the Political Business Cycle". *Brookings Papers on Economic Activity*. Vol. 1989. No. 7. 1-68.

¹³ Thomas E. Borcherding, 1977. "The Sources of Growth of Public Expenditures in the United States, 1902-1970". in: *Budgets and Bureaucrats: The Sources of Government Growth*. (T. E. Borcherding ed.).

¹⁴ James M. Buchanan, "Why Does Government Grow?", in: *Budgets and Bureaucrats: The Sources of Government Growth*. (T. E. Borcherding ed.). ; James M. Buchanan, and, Richard E. Wagner. 1977. *Democracy in Deficit: The Political Legacy of Lord Keynes*. New York: Academic Press.

¹⁵ Alan H. Meltzer, and Scott F. Richards. 1978. "Why Government Grows (and Grows) in a Democracy", *the Public Interest*, Summer, 1978.; Alan H. Meltzer, and Scott F. Richards. 1981. "A Rational Theory Of The Size Of Government". *Journal of Political Economy*. 89 (5): 914-927.

Open Economy Hypothesis¹⁶: In open economies, where international trade is not restricted by the government, public expenditures tend to increase more when compared to countries with closed economies. In countries that show a deficit in their balance of payments, this gap is tried to be closed by expansionary fiscal policies. This approach has been supported by economists named Assar Lindbeck and David Cameron.

Peltzman Hypothesis¹⁷: In the opinion of Sam Peltzman, one of the most important reasons of the increase of public expenditures is the inequality in the distribution of income. A bad income distribution of a country causes the increase of public expenses in order to re-distribute the income.

We have summarized the main sources of government growth from perspectives of notable economists and researchers. We may also analyze the subject matter from another aspect. There are economic, political and social factors that forces the expansion of government.

The government is continuously growing because of economic, political and social reasons. For instance, population increase causes the inevitable enlargement of the government. Conditions such as war and depression increases government intervention and government expenses.

However, the growth of the government sometimes increases due to the conflict of interest of the political actors. For example, when elections are approaching, in order to guarantee that they are elected again it is observed that the ruling party tends to increase public expenditures.

The size of government also increase because of the lobby of interest groups and the rent seeking activities carried out.

¹⁶ Assar Lindbeck, 1976. "Stabilization Policy in Open Economies with Endogenous Politicians". *The American Economic Review*. Vol. 66, No. 2. Papers and Proceedings of the Eighty-eighth Annual Meeting of the American Economic Association (May, 1976), pp. 1-19.; David Cameron, 1979. "The Expansion Of The Public Economy: A Comparative Analysis", *American Political Science Review*, January.

¹⁷ Sam Peltzman, 1980. "The Growth of Government". *Journal of Law and Economics*. Vol. 23, No. 2 (Oct., 1980), pp. 209-287.

A detailed picture of economic, political and social reasons are given below (Table-1).

Table 1: Factors Which Effects the Growth of the Government

<p>I. Economic Factors</p> <ul style="list-style-type: none">-The need of provision of pure public goods and services (internal and external security, justice, diplomacy services),-The need of provision of quasi-public goods and services (education, healthcare etc.),-Services where economies of scale occurs and natural monopolies (energy, transportation, communication etc.),-Depression and economic crisis (business cycles),-Fiscal illusion,-The supportive and substitutive role of the government for growth in less-developed and underdeveloped countries,-Full employment,-Re-distribution policies,-The implementation of the Keynesian expansionary economic policies.
<p>II. Political Factors</p> <ul style="list-style-type: none">-War and conflict,-Cold war and external threats,-Vote maximization behaviour of politicians,-Benefit maximization behaviour of voters,-Budget maximization behaviour of bureaucrats,-Rent maximization behaviour of interest and pressure groups,-Political business cycles.
<p>III. Social Factors</p> <ul style="list-style-type: none">-Population increase,-Redistributive social policies,-Unbalanced growth and development among regions (provinces) ; Need for better regional development,-Terrorism ,-Social aid and social services,-Social security servicesi.

Source: Coşkun Can Aktan,, 21. Yüzyıl İçin Yeni Bir Devlet Modeline Doğru: Optimal Devlet, İstanbul: Tüsiad Yayını, 1995. p.49.

III. CONCLUDING REMARKS

The economic activities of the government within the national economy are increasing continuously over the years. Empirical studies in most of the countries clearly indicate that the government is rapidly growing (Aktan & Demir, 2016).

There are economic, political and social reasons behind the growth of the government. There is not only one but many reasons for the growth of the government. Population increase, urbanization, industrialization, wars, need for economic development, need for social welfare spending etc. increase the activity of the government. Some of these reasons (for example, rapid population increase) make it necessary for the government to increase its activities. However, sometimes the government grows excessively and unnecessarily due to various reasons. These reasons actually stem from the political decision-making process. In the political process, ruling party, in order to guarantee reelection, increases public expenditures. The bureaucracy may also become directly responsible for increasing the budget volume in line with the demand of ruling government. In short, the government grows either out of necessity or in order to create benefits in the political process and to abuse political power.

Before submitting any opinion or views on limiting and downsizing the government, the reasons behind the growth of the government and the consequences of such growth must be clearly understood.

The continuous growth of government is the actual cause of economic problems. As it is known public expenditures are generally financed by tax revenues. The part that can not be financed by taxes is tried to be financed by non-tax revenues.

The first economic problem due to enlargement of the public sector is budget deficit. For politicians, the increase of public expenditures means the guarantee of re-election. In contrast, financing public expenses by taxes is a burden on the voters. Therefore government tries to avoid this just before the elections in fear that they will lose votes. Therefore, the part that can not be covered by the taxes results in budget deficits.

The government, which is elected, is obliged to increase the tax rates after the elections in order to settle the distorted economic balances and keep the promises they have made. Therefore, the tax burden is in the trend of increasing. The main negative results caused by the increase of the tax burden are:

- Decrease of aggregate savings,
- Decrease of aggregate investments,
- Decrease of work efforts,
- Enlargement of underground economy.

These results aroused in economy finally causes low economic growth and development, decrease in productivity, increase of unemployment and decrease in tax revenues. In short, the heavy tax burden is the result of the growth of the government and causes distortive effects on economy.

The growth of the government does not only cause economic problems but is also the source of political problems. Excessive government increases the gravity of political problems and political corruption in addition to economic problems. In the excessive government, political corruption such as bribery, corruption, embezzlement, pork-barrelling, nepotism etc. increases in extent.

There is a social cost of excessive government as well. Traditionally, the government is seen as a “protective”, “corrective”, “improving” and “curing” entity. There is no doubt that the government shall be responsible for providing security for the lives and property of its citizens. In this sense, there is no doubt that the social benefit of the government is very extensive. However, seeing the government as an entity that corrects and improves everything creates a “public mentality” where everything is expected from the government. This understanding of a interventionist and paternalistic government is one of the main reasons underlying the excessive growth of the government.

The Government is absolutely necessary for a good social order. A social order without the government is unthinkable. However, the government is the source of, as well as the solution to, some problems. A "new" philosophy and a "new" public administration paradigm are needed to stop the government from being a problem, but a benefit to the society.

It is necessary to make realistic assessments and analysis to establish an ideal government. First of all, certain basic principles have to be accepted for a good or ideal government. A good government must be established on the following principles:

The first basic principle is that there can not be a "society without a government" as mentioned above. A society without a government is unacceptable since it brings chaos and anarchy.

The power and authority of the government are not and can not be limitless. The economic and political power and authority of the government must be limited within constitutional and legal rules. A government without limits that is not restricted by rules becomes the source of economic, social and political problems.

The responsibilities and functions of the government, as well as its power and authority in the economic field must be limited. Limiting the government does not mean downsizing the government in all areas. What is important is to determine what the government has to do in the economy and what functions and responsibilities it has to undertake. The question that needs to be addressed here is "*How much do we need the government*", rather than "*Is the government necessary?*".

The ideal government is the small but effective government. The functions and responsibilities of the government within the national economy must be limited as much as possible and the competitive market economy must be made functional.

The responsibilities and functions of the government can never be reduced to that of a minimal government. A minimal government is still an utopia. In other words, a government limited to defense, justice and judicial authority seems not perfectly possible.

The responsibilities and functions of the government must be determined by taking into consideration time, location and socio-economic conditions. Therefore, the responsibilities and functions of the government vary from country to country.

The government must have an institutional identity based on a social contract. This means; in each society, the power and authority of the government, the content and limits of its responsibilities and functions must be determined based on a social consensus and turned into a social contract (Constitution). A government that is not based on a social contract is not legitimate.

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