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The Growth of Public Expenditure in Industrial Countries: An International and Historical Perspective 1/

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I. Historical Background

In all organized societies there must be an economic role assigned to the government. The government must perform functions that, if left to the private sector, would not be performed at all or would be performed at an unsatisfactory level. As an economic document, the budget is the most important expression of that role. Through the budget the government attempts to implement or promote its objectives. A successful budgetary policy is one that is both consistent with that role and that permits a clear evaluation of how well the desired objectives are being pursued or implemented.

Society's and especially the economists' attitude toward that role has changed enormously over the years as a brief historical survey quickly reveals. This role can be assessed from statements made through the years by various economists or policymakers as well as through a few statistics. "The very best of all plans of finance is to spend little and the best of all taxes is that which is least in amount." With these not too profound words, J. B. Say summarized, more than a century ago, his views of what the proper function of the public sector ought to be in a market-oriented economy. 2/ Bastiat was more explicit; for him the government "cannot have any other national function but the legitimate defense of individual rights. . . ." He went on to say that "beyond justice, I challenge anyone to imagine a governmental intervention which is not an injustice." 3/

1/ Revised version of a paper presented at a Conference on "Public Spending--The Key Issues" organized by the Institute of Public Administration, Dublin, Ireland, November 14, 1985.

2/ Cited by Hugh Dalton, Principles of Public Finance (New York: Augustus M. Killey, 1967), p. 5. This quotation makes Say's views appear more extreme than they actually were. For a more complete view see J. B. Say, Cours Complet d'Economie Politique Pratique, 3rd edition, Part 7, Chapter XIV.

3/ Frédéric Bastiat, Harmonies of Political Economy (Patrick Stirling translation), Part II, p. 458.

On the other side of the English channel, the economists' attitude toward the role of the government in the economy was not much different. There too the belief that the best government is the one that governs the least led many economists of the eighteenth and nineteenth centuries to come to regard public expenditure with suspicion and even to conclude that often it is inherently unproductive. Given this belief, it was natural for them to recommend that public expenditure should be kept to a bare minimum, and, given the classical economists' faith in the market, that it should be financed by taxes with the highest degree of neutrality. Adam Smith, for example, was quite specific in outlining the functions of the state. For him the state had three basic functions:

(a) First, "that of protecting the society from the violence and invasions of other independent societies..."; 1/

(b) secondly, "that of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice..."; 2/

(c) and, thirdly, "that of erecting and maintaining those public institutions and those public works, which, though they may be in the highest degree advantageous to a great society, are however, of such a nature, that the profit could never repay the expense to any individual or small number of individuals..." 3/ These "public works" are mainly "those for facilitating the commerce of the society, and those for promoting the instructions of the people." 4/ In other words, they are growth-promoting expenditures.

Of these three functions, the first two are basic to any organized society. They require expenditure for defense, police, administration, and so forth. The third function, however, being less specific, is more interesting because, with some liberality of interpretation, it seems to anticipate the modern concept of public good, which did not enter the public finance literature until recent decades. What is relevant here is that Adam Smith has nothing to say about the role of the government in redistributing income or in stabilizing the economy.

1/ Adam Smith, The Wealth of Nations (New York: The Modern Library, 1937), p. 653.
2/ Ibid, p. 669.
3/ Ibid, p. 681.
4/ Ibid, p. 681.

One may feel that the statements of these economists were removed from reality, as reflected in the actual levels of taxation or public expenditure in earlier periods. However, this is not the case as a few references can quickly show.

Heavy and increasing taxes to finance high levels of public expenditure have become so much a part of our life that we might think that the world had never been different. Yet, about a century ago a prominent French economist wrote that the level of taxation could be called "moderate" when the ratio of all taxes (including provincial and local taxes) in the national income was about 5 or 6 percent. Taxes became "heavy" when that ratio rose to 10 or 12 percent. Beyond that percentage the level of taxation would be "exorbitant" and would have serious consequences for the growth of the country and the liberty of its citizens and its industry. 1/ Leroy-Beaulieu mentioned Belgium, Great Britain, and France as fitting into the three categories.

One might suppose that, perhaps, Leroy-Beaulieu was misinformed about the level of taxation in his time. This is not so, however. Seligman provided us with a careful comparative study of tax levels for the four major Western countries in 1900-01, 1913-14, and 1924-25. His results are shown in Table 1.

Table 1 confirms that the percentages used by the French economist were not invented but reflected closely the situation in his time. These percentages also confirm a conjecture made by Peacock and Wiseman that wars bring about permanent increases in the level of taxation and expenditure. 2/ The levels for 1924/25 are substantially higher than those for the earlier periods, and the main reason for this increase was World War I.

We cannot but smile at the realization that Leroy-Beaulieu considered "exorbitant" the level of taxation then prevailing in France--somewhere around 15 percent. If a tax level of 15 percent was exorbitant, how would he react to the levels reached in many industrial countries in recent decades? It is equally amusing to read that the Professor of

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1/ Paul Leroy-Beaulieu, Traité de la Science des Finances, Tome Premier, Des Revenue Publics (Paris: Guillaumin et C[ie], Librairis, 1888) pp. 127-28.

2/ Peacock, A.T. and Wiseman, J.A., The Growth of Public Expenditure in the United Kingdom, 1890-1955, Princeton University Press for NBER, Princeton, 1961.

Table 1. Tax Levels in the Major Western Contries, 1900-01 to 1924-25

(Percent of national income)

	1900-01	1913-14	1924-25
France	14.96	14.11	20.01
United Kingdom	9.99	11.29	24.77
Germany	7.99	10.51	29.21
United States	7.76	6.68	11.06

Sources: Edwin R.A. Seligman, Studies in Public Finance, The Macmillan Co., New York, 1925, Ch. 1.

Public Finance at Harvard in 1913 considered "clearly excessive" the maximum rate of 7 percent levied on taxable incomes in excess of $500,000 in the just introduced income tax; 1/ or to read that in that same year Cordell Hull, the knowledgeable Chairman of the Ways and Means Committee of the U.S. Congress, could state in a speech to the U.S. House of Representatives that the income tax rates from 1 to 6 percent being proposed "would produce more money than the mind of man would ever conceive to spend." 2/ Clearly, things have changed a great deal. Just how much they have changed will be shown later.

1/ See Richard Goode, The Individual Income Tax, The Brookings Institution, Washington, D.C., 1964, p. 3.

2/ Cited in a Washington Post article written by Wilbur D. Mills, former Chairman of the House Ways and Means Committee. It should be recalled that the income tax on individuals was introduced in 1913 in the United States.

II. Fiscal Policy in Recent Decades

In the late 1950s, Professor Richard Musgrave, in a very influential book, 1/ formalized the modern role of the government in terms of (a) allocation of resources, (b) stabilization of economic activity, and (c) redistribution of income. Musgrave pursued the interesting though abstract idea that the budget office should be thought of as being made up of three different branches. One branch would deal with the allocation of resources, ignoring stabilization and redistribution; one branch would deal exclusively with the stabilization of the economy; and one branch would deal exclusively with the redistribution of income. The "budget" of the stabilization branch would be balanced over the long run, as surpluses generated during boom years would compensate for deficits created during recession years. Thus, no permanent accumulation of public debt would take place in this branch. The "budget" of the redistribution branch would balance out every year, as individuals with high incomes would pay taxes that would be transferred to those with lower incomes. The allocation branch would be the one with a net positive expenditure year-in and year-out, and this expenditure would be covered by ordinary revenue. This breakdown is, of course, an abstraction, but it is a useful one as it puts the emphasis on the economic goals that the government is expected to promote in a modern economy and links them explicitly to the budget document.

When considering Musgrave's modern version of the presumed role of the government, it is necessary to keep in mind, as one could easily forget, that there is really nothing essential about his triad. In fact, most economists of the past would have been highly surprised at Musgrave's formalization of that role, even though in today's world the role outlined by Musgrave appears natural.

The three functions of economic policy described by Musgrave did not enter the consciousness of policymakers and did not attract the attention of economists all at the same time, but rather, in different periods. The allocative function is the most basic and fundamental. In fact, it is the only one that is a sine qua non of an organized society. No organized society can exist without a government, and the most fundamental raison d'être for a government, at least in the economic sense, is the allocative function. A government does not have to redistribute income or attempt to stabilize the economy, but it must "allocate" resources toward the production of those goods and services that would not be produced by the private sector and that are

1/ Richard A. Musgrave, The Theory of Public Finance (New York: McGraw-Hill Book Company, Inc., 1959).

essential for an organized society. This is the function discussed by Adam Smith and recognized by all the classical economists. It is the one behind defense spending, spending for police, administration of justice, roads, etc.

For all its recent importance in the budgets of countries, redistribution as a basic governmental function in a market-oriented economy is a newcomer. One of the earliest explicit references to it by economists can be found toward the end of the last century, especially in the works by German economists such as Gustav Schmoller and Adolf Wagner. They argued that even in a predominantly laissez-faire economy the government had a basic responsibility in redistributing income from the wealthy to the less fortunate. Their "radical" view was sharply criticized, at the time, by Professor Seligman of Columbia University, who accused them of indulging in what he ironically called "fiscal policy." This seems to be the first time that this term was used and it was used in a disparaging way. 1/

The stabilization function is, of course, even more recent--having made its appearance with Keynes' General Theory published in 1936. Keynes argued that the government should be the stabilizing factor in the economy, as a market-oriented economy was supposed to be inherently unstable with a pronounced tendency toward recessions. As a cynic might have put it: in order to stabilize the economy the government had to destabilize the budget.

It is important to keep this historical perspective in mind when we assess the current functions of governments, as we may otherwise think of them as being "natural" or "essential," or as having always been there. The fact is that the low levels of tax revenue and public expenditure (measured as ratios of national income) that characterized many of the economies until World War I can easily be explained when it is realized that until that time governments by and large had limited their functions to allocation. There were then no large scale expenditures for redistribution or for stabilization. Even today, the ratios to national income of allocative expenditures are not much higher than they were at

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1/ Of course several socialist or Utopian writers such as Saint-Simon, Robespierre, Owen, Fourier, Marx, and others, in their schemes to change society had advocated the nationalization of wealth or other drastic changes in social arrangements. The point made here is that mainstream economists as well as general policymakers had not recognized this role in a market-oriented economy where private property was prevalent. There had also been a protracted controversy among economists starting with Adam Smith over whether taxes should be based on ability to pay or benefit received. However, the controversy was related to how allocative expenditures were to be financed. The issue was not whether redistribution should be an explicit objective of tax policy. On the ability-to-pay approach to taxation, see Richard Musgrave, op. cit., Chapter 5, pp. 90-115.

that time, in spite of technical reasons (for example, the relative price effect) why some public expenditure (i.e., education) is relatively more expensive now than it was then.

Up to the 1950s there were three historical episodes that caused the level of public expenditure to grow. These were the two world wars and the Great Depression. The world wars brought about temporary sharp increases in public spending for war-related purposes. These increases were partly accommodated by higher taxes and partly by public borrowing. In most countries the share of tax revenue and of public debt in national income rose sharply. 1/ When the wars were over, public spending and tax revenues fell, but not to the pre-war level. As argued by Peacock and Wiseman, the wars permanently increased the size of the government in the economy. 2/

The Depression had a more permanent and less accidental effect than the wars on the level of public spending, for it raised uncomfortable questions about the ability of a market economy to solve some of the major economic problems of a country, such as unemployment and poverty. As such, it provided an intellectual and permanent justification for a much larger role of the public sector in the economy and initiated a trend that accelerated in recent decades. This larger role was, of course, associated with the functions of redistribution of income and of income maintenance. 3/ By the 1950s the level of public expenditure as a share of gross national product (GNP) had reached around 30 percent in many industrial countries, a proportion well above earlier periods but still far below recent levels. It was, for example, around that level in the Federal Republic of Germany, Italy, Ireland, the United Kingdom, the United States, Australia, and many other countries. (See References at the end of paper.)

The 1950s and the 1960s were periods of increasing optimism about the effectiveness of government policy in pursuing the objectives mentioned above. Intellectual developments in economic thinking provided grounds for this optimism.

1/ In the United States, for example, tax revenue of the Federal Government rose by about 6 percent of GNP in World War I and by about 15 percent during the World War II. Public debt as a share of GNP rose from 3 percent in 1915 to 26.6 percent in 1920, and from 44.2 percent in 1941 to 119.7 percent in 1946. Similar increases took place in other countries.

2/ Peacock and Wiseman, op. cit.

3/ The regimes that took control in Germany and Italy between the wars as well as the growing popularity of socialist economic systems also promoted an increase in the role of the government and in public spending.

As far as allocation was concerned, it was assumed that policymakers could rely on clear and objective signals that would help to insulate the allocative decision from political pressures. Spending decisions would be based exclusively on objective economic criteria. These signals would indicate whether a certain expenditure should or should not be the responsibility of the government. Theories related to the concepts of public goods and externalities were developed to provide the theoretical justification for public expenditure of an allocative and even of a redistributive type. 1/ These theories were accompanied by the development of new tools of analysis, such as cost-benefit analysis and PPBS aimed at making budgetary decisions objective and at making spending economically efficient. 2/

While the above concepts were also considered important in developing countries, the situation there was more complex. It was generally accepted that growth might not be an automatic result of decisions to save and invest made by independent individuals, but that it should be actively promoted by governmental policy. In view of these countries' low levels of income, growth should be the paramount objective of economic policy. This objective dominated the allocative decision as governments tried to increase total savings and total investment, assuming that this action would automatically bring about a higher rate of growth. This was done by raising the ratio of taxes to national income while attempting--often without success--to keep unchanged the ratio of current expenditure to national income. The government itself carried out much of the investment function as the private sector was believed to be incapable of performing this function. In most developing countries public investment has accounted for more than 50 percent of total investment; in industrial countries it has often been lower than 20 percent.

Stabilization could also be achieved easily as Keynesian economics had given specific guidelines for fine tuning the economy. Apart from a few dissenters (monetarists in the industrial countries and structuralists in the developing countries), Keynesian economics came to be generally accepted as valid. The assumption at the time was that inflation resulted from excess demand. Recessions were accompanied by price declines, and booms by price increases. Inflation without a boom was considered a remote possibility. By the mid-1960s we had become so confident of our ability to stabilize the economy through the manipulation of taxes and expenditure that a well-known American economist could state publicly that we had all the answers to macroeconomic questions. In his view, students of economics should no longer waste their time studying macroeconomics but should concentrate on microeconomics.

1/ See especially Paul A. Samuelson, "The Pure Theory of Public Expenditure," Review of Economics and Statistics, 36 (November 1954), pp. 387-89.

2/ See the various papers in Public Expenditures and Policy Analysis, Robert H. Haveman and Julius Margolis, editors (Chicago: Markham Publishing Company, 1970).

This optimism extended also to the government's ability to redistribute income. At first it was believed that this objective could be promoted best through progressive taxation; therefore, income taxes became more important, their structure more progressive, and the maximum marginal tax rate came to exceed 90 percent in many countries. This happened before public expenditure and tax revenue began to rise sharply as shares of national incomes. However, as time passed, it became obvious that progressive taxation could reduce the income of the well-to-do but could not raise that of the relatively poor. In order to redistribute income, it was not sufficient for taxes to be progressive; public expenditure had to be reoriented toward low-income groups. Key assumptions were that (a) the potential beneficiary of this redistributive public expenditure could be identified; (b) that public expenditure itself could be made selective enough to benefit mainly the people that it was intended to benefit; (c) that the existence of this expenditure would not by itself raise the number of beneficiaries; and (d) that the administrative costs of redistributions could be kept low. In part because these assumptions proved unrealistic, the result was a phenomenal growth in social expenditure. Equally important (although there was some controversy vis-à-vis particular taxes), as evasion was normally ignored and as tax bases were assumed to be stable, it was believed that the incidence of the tax system could be determined and that high marginal tax rates would not have serious disincentive effects.

Toward the end of the 1960s and in the 1970s, and while the growth of public spending was accelerating, the early optimism about governments' ability to use the budget as an economic tool for promoting the above-mentioned objectives began to give way to an increasing degree of skepticism. On the allocation side, the concept of public good was seen to be much more limited in its usefulness than had been originally assumed. The theoretical separation between pure public goods and pure private goods was seen to be artificial in the real world. Externalities were far more pervasive than had been thought and, in some cases, they crossed international frontiers. Therefore, it was far more difficult to deal with them than previously thought. The relevant time horizon for public decisions became more and more ambiguous, as issues about ecology, exhaustion of natural resources, future commitments of social security programs, and the like started raising uncomfortable questions about the extent to which present policymakers should worry about future generations. The distinction between presumably growth-promoting investment and "unproductive" consumption became less meaningful as expenditure for health and education was shown to be also important to growth. Finally, it became more and more difficult, and less and less fashionable, to separate the allocative from the redistributive objective in relation to particular expenditures. 1/ At the same time

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1/ See, for example, the studies in Measuring Benefits of Government Investments, Robert Dorfman, editor (Washington, D.C.: The Brookings Institution, 1965).

the increasing complexity of the economy was making budgeting more difficult; the simpler decisions of the past (for example, whether or not to build a road when a road was the only means of connecting two places) gave way to more complex decisions as the number of alternatives to achieve given objectives increased (for example, transportation being potentially provided by airplanes, trains, cars).

Our ability to stabilize the economy was also put in doubt when countries began to experience the strange phenomenon of recession and inflation occurring at the same time. The policies that had seemed so effective in fine tuning the economy in the mid-1960s proved to be largely ineffective in dealing with the stagflation of the 1970s. Widespread skepticism came to affect economists and policymakers; macroeconomics, which was supposed to have answered all the macro questions, became again an exciting--even though frustrating--field of study. This skepticism has continued to the present day. How far we have come from Keynesian economics can be guessed at from the many times in recent years we have witnessed the advocation of policies aimed at reducing fiscal deficits during recessions.

The objective of redistribution has also gone through the same phase. As the tax burden had reached levels that would have been thought unreachable a few decades ago, economists and policymakers started to worry about the disincentive effects of these high taxes. 1/ The phenomenon of the underground economy promoted by high tax rates started to attract universal attention. 2/ Also, considerable skepticism has resurfaced about the incidence of taxation and about our ability to limit redistributive public expenditure to the truly needy. The beneficiaries from the redistributive expenditures, rather than being a well-contained and well-defined group, have come to be seen as a group whose size may be directly and substantially influenced by the size of the benefits.

As we shall see below, in the 1970s fiscal imbalances became widespread. While in the past fiscal deficits had often been linked to recessions, they became a permanent fact of life in many countries. These fiscal deficits have had different causes in different countries.

1/ It should be recalled that as late as the 1940s, Colin Clark had argued that levels of taxation higher than 25 percent of national income would set in motion forces of a political, economic, and psychological nature that inevitably would result in a general increase in costs and prices. See Colin Clark, "Public Finance and the Value of Money," Economic Journal, December 1945.

2/ See for a collection of studies from various parts of the world, The Underground Economy in the United States and Abroad, Vito Tanzi, editor (Lexington: The Lexington Press, 1982).

In general, however, they have resulted from excessive expansion in expenditure rather than from reduction in taxes. Excessive expenditure has been caused by different factors in different countries. 1/

a. Overambitious capital expenditure programs

In some countries, and particularly in some developing countries, overexpenditure was caused by governments, planned investment programs, which far exceeded the resources available to the country. Often these investment programs were initiated by planning offices without the full cooperation of or agreement with the ministry of finance. The latter was left with the responsibility of raising the needed revenues either through taxes or through borrowing. Conflicts between these two offices have been frequent and, unfortunately, the more fiscally conservative ministry of finance has often lost out.

b. Proliferation of entitlement programs

In many cases, entitlements were introduced when the immediate cost of these programs was very low and nobody really worried much about the long-range problems. Unfortunately, the relevant time horizons for most governments are limited to a few years or, in some cases, even months. Therefore, problems that are likely to develop several years in the future are often ignored, as has happened, for example, with social security. At times social security programs were introduced with the explicit objective of raising revenues, as the effect of contributions were felt immediately, but the payments would be made only in some distant future. Unfortunately, as these programs matured and as pressures built up to expand their scope, both to incorporate additional population and to increase the size of the benefits, they started running into trouble. Factors such as demographic changes, as well as incentives to early retirement, also contributed. 2/ Often the beneficiaries of these programs acquired such strong political power that governments were unwilling or unable to bring some realism into the picture. Similar experiences have been encountered by programs dealing with unemployment compensation that were introduced in periods of full employment when their immediate cost was very low.

1/ There are now many theories about why the government has grown in industrial countries. Some of these emphasize purely economic factors, others more political or bureaucratic ones. These theories have been surveyed in D. Tarschys, "The Growth of Public Expenditure: Nine Models of Explanation," Scandinavian Political Studies, 10, 1975, pp. 9-31; and Patrick D. Larkey, Chandler Stolp, and Mark Winer, "Theorizing About the Growth of Government: A Research Assessment," Journal of Public Policy, I, 2, 1985, pp. 157-220.

2/ Demographic changes are expected to create serious difficulties in future years in the majority of industrial countries.

c. Expansion of wage expenditure

Countries have had two different experiences with wages. In some countries, the government has been concerned more with creating employment than with maintaining an efficient public sector. In these countries the government has often been the employer of last resort. In this case, public employment has been expanded far beyond what would be justified by efficiency criteria. In some countries the expanded public employment was bought with low wages, with the net result that often the more qualified public employees found it more attractive to work in the private sector than in the public sector. Therefore, except for the highly motivated few, the public sector was often left with employees with less skills or initiative than desirable. In other countries, on the other hand, public employees may themselves have created a strong political force, and they may have expanded wage levels beyond what would seem prudent. In some of these latter countries, indexation of wages played an important role in raising their real level.

d. Subsidies to consumers

This is another important category that has got out of hand in some countries and has created serious budgetary problems. Subsidies to consumers have been justified on grounds of income redistribution and equity. However, in many countries it was difficult to make these subsidies selective, so that instead of benefiting the needy few, they ended up as expensive broad-based measures that kept the prices of particular products artificially low and contributed to the fiscal deficit. It would be difficult to argue that many of these subsidies really helped the poor, as often the taxes that had to be raised, including the inflation tax, were quite regressive, while the beneficiaries from the low-cost commodities were numerous and cut across income classes.

e. Subsidies to enterprises

This category is not markedly different from the previous one, although in particular countries the two may reflect different phenomena. Public enterprises have become one of the big problems in the public sector of many countries and have contributed substantially to their fiscal deficits and public debt. Subsidies to public enterprises may be caused by different factors, such as the freezing of prices of commodities sold by these enterprises during periods of inflation; overambitious investment programs; or political pressures to use public enterprises to alleviate the unemployment problem. Clearly, far more attention must be paid to this sector to make sure that it ceases to be a heavy burden on the budget. A movement has started recently in several countries toward the privatization of some public enterprises. In some countries subsidies do not go to public enterprises but to failing private enterprises. Again, social concern about jobs, as well as political pressures, have forced many governments to subsidize losing enterprises to prevent them from going bankrupt.

f. Lack of expenditure control

In some countries the problems are not so much political as they are administrative, in the sense that countries may not have put in place administrative systems capable of controlling the level of expenditure in many parts of the government. In fact, one of the fictions of the literature on public finance has been the assumption that the public sector is a monolithic entity with a clearly definable control center. To a large extent, this control center is the bureau of the budget. Unfortunately, the degrees to which signals sent by this bureau are actually received by the various agencies, and are implemented, varies from country to country. In some countries these signals are received loud and clear, and it is difficult to ignore them. In these countries, if problems exist, they are a reflection of the government's unwillingness for political reasons to control expenditure. On the other hand, in some other countries the signals, when they are received, are much weaker and often are not so clear. Therefore, the individual agencies have more leeway to act independently, which often makes it difficult to employ a rational expenditure policy.

III. Some Basic Statistics

Some of the factors that contributed to the growth of public spending were discussed above. In this section I shall present data to show the extent of that growth; the contribution of different categories of public expenditure to it; the increases in the level of taxation; and, finally, the extent to which tax increases have been insufficient to pay for the growth, thus leading to fiscal deficits and to the accumulation of public debt. The accumulation of public debt itself became a major factor in the expansion of public spending as the cost of servicing it, especially in a world where real interest rates rose sharply, grew considerably. This pattern has been quite universal, although the particular dimensions vary across countries. Because of data limitations, and to keep the paper relatively simple, the countries chosen, as well as the periods covered, will differ in different tables.

1. Total expenditure

The proportion of total public spending in gross national (or domestic) product (GDP) was relatively low in most countries up to World War I, say less than 20 percent. World War I gave it the first upward push; however, in the 1920s the proportion generally fell. The 1930s brought the first permanent expansion in public spending, in part as a response to the Depression and in part as a consequence of the coming to power in several countries of governments that did not have strong commitments to a market economy. In Germany and in Italy, in particular, public spending grew considerably in this period. By the early 1950s public spending as a proportion of GDP had reached or approached 30 percent in many countries. It generally remained at that level until the mid-1960s when the proportion started rising at a very fast pace, mostly in response to the growing popularity of social programs introduced by newly enacted legislation. These programs reflected the then prevalent optimism about the ability of governments to solve social problems in an environment of fast economic growth. They also reflected the changing view about the government's responsibilities in the economic and social sphere. The government came to be expected to stimulate growth, to stabilize the economy, to redistribute incomes, to guarantee income levels and jobs for particular groups, to prevent the closing of unprofitable enterprises because of their potential effect on jobs, to supply particular commodities and services at subsidized prices, and to regulate many other activities. These functions required higher public spending.

Table 2 shows, for 22 industrial countries, total public spending as a percentage of GDP for 1960, 1971, 1975, and 1983. The increases are quite remarkable and universal. No country in the table escapes the trend. The lowest absolute increases are registered by Iceland and Switzerland; the largest increases are registered by Belgium, Denmark, Ireland, Luxembourg, the Netherlands, Sweden, and a few others. The record for the largest increase goes to Sweden, where the share of spending to GDP rose by an extraordinary 35.7 percent, or by more than the level of spending in any country in 1960. The (unweighted) average for the whole group rose from 26.9 percent in 1960 to 47.5 percent in 1983, or by 20.6 percentage points. It should be recalled that hardly any country allocated more than 20 percent of GDP to public spending until the 1920s. By 1983 nine countries had percentages exceeding 50 percent of GDP and four had percentages exceeding 60 percent. By and large, public expenditure grew faster in the smaller countries than in the larger countries.

Table 2. Total General Government Expenditure, 1960-83

(Percent of GDP)

	1960	1971	1975	1983
United States	27.5	32.3	35.6	38.1
Japan	18.3	20.8	27.3	34.8
Germany, Fed. Rep. of	32.4	40.1	48.9	48.6
France	34.6	38.3	43.5	51.5
United Kingdom	32.4	38.1	46.4	47.2
Italy	30.1	36.6	43.2	57.4
Canada	28.9	36.6	40.8	46.8
Average of the above	29.2	34.7	40.8	46.3
Australia	22.1	26.2	32.3	36.4 1/
Austria	32.1	39.7	46.1	50.4 1/
Belgium	30.3	38.0	44.5	56.3
Denmark	24.8	43.0	48.2	61.1
Finland	26.6	32.1	36.3	40.3
Greece	17.4	22.8	26.7	38.3
Iceland	28.2	32.6	38.7	34.4 1/
Ireland	28.0	40.5	46.6	54.7
Luxembourg	30.5	36.3	48.9	60.8
Netherlands	33.7	48.0	56.6	62.8
Norway	29.9	43.0	46.6	48.9
Portugal	17.0	21.3	30.3	42.5 1/
Spain	18.8	23.6	24.7	36.6 1/
Sweden	31.1	45.8	49.3	66.8 1/
Switzerland	17.2	21.9	28.7	30.8
Average of the above	25.8	34.3	40.3	48.1
Overall average	26.9	34.4	40.5	47.5

Source: OECD and EC.

1/ Refers to either 1981 or 1982.

If these levels could be financed through taxes without serious disincentive effects, and if the public spending itself did not have welfare costs, one could argue that those levels would be sustainable and that if the spending was contributing to overall social welfare, it was fully justified. However, there is growing recognition that the tax burdens in these countries are now so high as to generate potentially disincentive effects, and there are pressures to reduce the tax level. 1/ Nevertheless, those high tax levels are still not sufficient to finance the level of expenditure, and these countries have been borrowing on a large scale. A related question is whether the presumed benefits derived from public spending justify the problems that accompany the growth in public debt.

The phenomenal increase in total government spending is largely the consequence of the growth of social expenditure, especially in the form of cash transfers. There has been much less of an increase in the direct use of real resources on the part of the government. Table 3 shows the share of total final consumption expenditure by the government in GDP for the same years as in Table 2. Although there have been increases in this share in many countries, by and large they have not been very large. A review of the share of government employment in total employment would yield similar results. For the countries shown in Tables 2 and 3, that share rose from 11.3 percent in 1960 to 15.4 percent in 1983, a significant but not very large increase. It can thus be deduced from Tables 2 and 3 that cash transfers have been the main cause of the growth of public spending in the past two decades. Let us look more closely at this item.

2. Social expenditure and transfers

Table 4 provides information for 19 countries for the years 1960 and 1981 on social expenditure defined as direct public expenditure on education, health services, pensions, unemployment compensation, and other maintenance and welfare services. 2/ It represents a combination of real expenditure and cash transfers. The table shows a consistent pattern of growth for all countries. For the whole group this type of spending grew from 13.1 percent of GDP in 1960 to 25.6 percent in 1981,

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1/ There is also growing evidence that public spending itself may be generating negative effects on efficiency and growth. See, for example, Peter Saunders and Friedrich Klau, The Role of the Public Sector, Causes and Consequences of the Growth of Government, OECD Economic Studies, No. 4, Spring 1985, Paris; and Assar Lindbeck, "Limits to the Welfare State," Challenge, Vol. 28, No. 6 (January-February 1986), pp. 31-37.

2/ See OECD, Social Expenditure 1960-80, Paris, 1985.

Table 3. Total Final Consumption Expenditure of Government, 1960-83

(Percent of GDP)

	1960	1971	1975	1983
United States	16.9	18.5	19.1	19.3
Japan	8.0	8.0	10.1	10.2
Germany, Fed. Rep. of	13.4	16.9	20.5	20.0
France	13.0	13.4	14.4	16.3
United Kingdom	16.4	17.8	21.8	22.0
Italy	12.8	15.5	15.4	19.5
Canada	13.6	19.2	20.0	21.0
Average of the above	13.4	15.6	17.3	18.3
Australia	9.4	12.5	15.4	17.6
Austria	13.0	14.8	17.2	18.7
Belgium	12.4	14.1	16.4	17.7
Denmark	13.3	21.3	24.6	27.2
Finland	11.9	15.2	17.1	19.4
Greece	11.7	12.5	15.2	18.8
Iceland	8.5	10.0	11.1	12.3
Ireland	12.5	15.2	18.6	20.2
Luxembourg	9.8	11.7	14.9	17.3
Netherlands	12.8	16.0	17.4	17.7
New Zealand	10.7	12.9	14.8	17.0
Norway	12.9	17.9	19.3	19.5
Portugal	10.5	13.5	15.0	14.6
Spain	7.4	8.6	9.2	12.3
Sweden	15.8	22.5	23.8	28.5
Switzerland	8.8	10.9	12.6	13.5
Turkey	10.5	13.4	12.6	10.8
Average of the above	11.3	14.3	16.2	17.8
Overall average	11.9	14.7	16.7	17.9

Source: OECD.

Table 4. Social Expenditure, 1960-81 1/

(Percent of GDP)

	1960	1981
Canada	12.1	21.5
France	13.4 2/	29.5
Germany, Fed. Rep. of	20.5	31.5
Italy	16.8	29.1
Japan	8.0	17.5
United Kingdom	13.9	23.7
United States	10.9	20.8
Average of the above countries	13.7	24.8
Australia	10.2	18.8
Austria	17.9	27.7
Belgium	17.4	37.6 3/
Denmark	--	33.3 4/
Finland	13.2	22.2
Greece	8.5	13.4 3/
Ireland	11.7	28.4
Netherlands	16.2	36.1
New Zealand	13.0	19.6
Norway	11.7	27.1
Sweden	15.4	33.4
Switzerland	7.7	14.9 4/
OECD average	13.1	25.6

Source: OECD Social Expenditure Statistics.

1/ Or latest year available.
2/ Excluding education.
3/ 1980.
4/ 1979.

thus accounting for a 12.5 percentage point increase in total spending. The Organization for Economic Cooperation and Development (OECD) report from which these data originated concluded that, "the main source of growth in real social expenditure lies in discretionary policy decisions to increase programme coverage and real benefit levels." 1/ Thus, in an economic sense (if not in a political sense) there was nothing unavoidable about this increase. It resulted mainly from political pressures on governments and from the latter's inability or unwillingness to resist those pressures. Or, of course, it may have resulted from the governments' genuine belief that this growth in public spending would result in greater welfare for the citizens.

Table 5 provides a breakdown of social expenditure among its components for the seven major OECD countries. The table shows that all components contributed to the spending increase, with pensions and health contributing the most.

3. Public spending in EC countries

More specific conclusions about the pattern of growth of public expenditure in industrial countries can be reached by relying on data prepared by the staff of the European Community (EC) for the EC countries. These data cover the 1970-85 period and thus allow an evaluation of recent trends. Table 6 presents total expenditure and is thus similar in purpose to Table 2; however, the period covered and the countries included are different. There are also some differences in the levels of spending for the same countries between Table 2 and Table 6, due possibly to different classifications or sources used. The advantage of using Table 6 is that we can allocate total expenditure among its major components. These include: current transfers (to entities, households, and the rest of the world), actual interest payments, government consumption (compensation of employees and purchases of services), and capital expenditure (net capital transfers and gross fixed capital formation).

Total current transfers can be subdivided into transfers to families (mostly in the form of social expenditures), transfers to enterprises, and transfers to the rest of the world. As the latter is generally small and has not shown any particular trend, it will be ignored. Tables 7 and 8 show transfers to households and to enterprises, respectively. Table 7 shows that approximately half of the total increase in public spending between 1970 and 1985 was accounted for by current transfers to

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1/ Ibid, p. 10.

Table 5. Components of Social Expenditure in Seven Major OECD Countries, 1960-81

(Percent of GDP)

	1960	1975	1981
Education 1/	3.4	5.8	5.7
Health	2.5	5.2	5.6
Pensions	4.8	7.3	8.8
Unemployment compensation 1/	0.5	1.1	1.2
Total of above programs	11.2	19.4	21.3
Total social expenditure	13.7	23.1	24.8

Source: OECD, Social Expenditure 1960-1990, Table 5, p. 30.

1/ Six-country average, excluding France.

Table 6. Total Expenditure of EC Countries

(Percent of GDP)

	1970	1975	1980	1983	1985 1/
Belgium	38.6	46.7	53.7	58.2	57.3
Denmark	42.1	48.2	56.2	61.5	59.1
France	38.9	43.5	46.4	52.0	52.6
Germany, Fed. Rep. of	38.7	49.0	48.4	48.7	47.9
Greece	--	--	--	41.1	45.8
Ireland	--	46.3	51.4	54.9	54.8
Italy	34.2	43.2	46.1	57.5	59.1
Luxembourg	33.7	48.9	54.4	58.1	55.4
Netherlands	44.7	54.1	57.7	62.7	59.9
United Kingdom	37.0	44.2	43.2	45.2	44.9
Average	38.5	47.1	50.8	54.0	53.7

Source: EC.

1/ Estimated.

Table 7. Transfers to Households of EC Countries

(Percent of GDP)

	1970	1975	1980	1983	1985 1/
Belgium	14.1	18.8	21.0	23.3	22.4
Denmark	11.4	13.9	16.8	17.9	16.5
France	16.9	20.2	22.9	25.8	26.4
Germany, Fed. Rep. of	13.0	18.0	17.1	17.7	16.7
Greece	7.6	7.1	8.9	12.7	13.6
Ireland	--	12.8	12.9	16.3	16.6
Italy	12.4	15.6	15.8	20.3	20.5
Luxembourg	15.5	22.9	24.7	26.2	26.5
Netherlands	17.8	24.4	26.3	29.7	27.7
United Kingdom	8.4	9.7	11.1	13.2	13.1
Average	13.0	16.3	17.8	20.3	20.0

Source: EC.

1/ Estimated.

Table 8. Transfers to Enterprises of EC Countries

(Percent of GDP)

	1970	1975	1980	1983	1985 1/
Belgium	2.4	2.5	2.7	2.7	2.4
Denmark	2.9	2.8	3.2	3.3	3.2
France	2.0	2.0	1.9	2.1	2.2
Germany, Fed. Rep. of	2.0	2.2	2.3	2.1	2.3
Greece	0.8	2.5	2.4	2.2	2.4
Ireland	--	3.6	3.9	3.6	3.5
Italy	1.5	2.2	2.3	2.5	2.6
Luxembourg	1.1	2.1	3.6	4.4	3.4
Netherlands	1.3	1.7	2.5	2.8	2.9
United Kingdom	1.7	3.5	2.3	2.1	2.2
Average	1.7	2.5	2.7	2.8	2.7

Source: EC.

1/ Estimated.

households. These grew from an average of 13.0 percent of GDP in 1970 to 20.0 percent in 1985. In some countries the increases were much higher. For example, in France this share rose from 16.9 percent in 1970 to 26.4 percent in 1985; in Luxembourg, the change was from 15.5 percent in 1970 to 26.5 percent in 1985; in the Netherlands the share rose from 17.8 percent to 27.7 percent. In the Federal Republic of Germany, it grew from 13.0 percent in 1970 to 18.0 percent in 1975, but then fell in the next ten years--the only country in the table showing a fall over the period.

Compared to current transfers to households, current transfers to enterprises have not grown much. In fact, much of the increase that took place over the 15-year period occurred between 1970 and 1975 as an attempt to minimize the impact of the first oil shock on enterprises. These transfers are now somewhat higher in Denmark, Ireland, and Luxembourg than in the other countries, but the spread among countries is not very large. Furthermore, in an absolute sense the percentages shown in Table 8 are not large. Total current transfers (to both families and enterprises) accounted for about 8 of the 15 percentage point increase in the share of total spending to GDP over the 1970-85 period.

The behavior of government consumption is shown in Table 9. On the average, general consumption grew from 14.9 percent of GDP in 1970 to 19.2 percent of GDP. In this category Greece shows the largest increase, and the Netherlands, the smallest. For the most part, the variations among countries are not very large.

Government consumption is made up of two main categories, compensation of employees and purchases of goods and services. Compensation of employees is by far the more important, accounting for close to 70 percent of the total. For the average of the ten countries, there was almost a constant relationship over the 15 years between compensation of employees and government consumption. The first was around 69 percent of the second in each of the years considered. The share of compensation of employees in GDP was highest in Denmark (18.0 percent in 1985) and lowest in the Federal Republic of Germany (10.6 percent in 1985). Much of the increase in this category took place in the 1970-75 period when the average rose from 10.2 percent in 1970 to 12.4 percent in 1975. By 1985 it had reached 13.0 percent, but there had been no change in the percentage since 1980.

About one third of the total increase in public spending since 1970 is accounted for by interest payments. As current revenues were not sufficient to cover total public spending, and as practically all

Table 9. Government Consumption of EC Countries

(Percent of GDP)

	1970	1975	1980	1983	1985 1/
Belgium	13.7	16.8	18.4	18.2	17.6
Denmark	20.0	24.6	26.7	27.2	25.2
France	13.4	14.4	15.2	16.4	16.3
Germany, Fed. Rep. of	15.8	20.5	20.1	20.1	20.0
Greece	12.6	15.2	16.4	18.7	20.2
Ireland	--	18.5	20.2	20.2	19.4
Italy	13.8	15.4	16.4	19.3	19.5
Luxembourg	10.7	14.9	16.5	16.6	16.2
Netherlands	16.3	18.2	17.9	17.7	16.2
United Kingdom	17.5	21.7	21.2	21.9	21.6
Average	14.9	18.0	18.9	19.6	19.2

Source: EC.

1/ Estimated.

countries experienced an unprecedented increase in public debt, interest payments inevitably grew, thus contributing even more to the rise in total spending. Table 10 provides some relevant information on interest payments. Averaging about 1.9 percent of GDP in 1970, these payments by 1985 had reached half of the total government spending on compensation of employees and more than twice the total spending for gross fixed capital formation. In Ireland and Belgium interest payments were almost 11 percent of GDP in 1985, or about 20 percent of total expenditure. In Italy they reached almost 10 percent of GDP. These three countries have two factors in common: high fiscal deficits and very high public debt. At the other extreme we find Luxembourg, France, and the Federal Republic of Germany--countries with low public debt and generally much lower fiscal deficits. A high fiscal deficit that results in an increasing share of public debt in GDP can result in a potentially explosive situation, as the growing debt causes interest payments to rise, thus leading to higher deficits, which in turn raise the debt ratio even more. The implications of a high debt ratio can be serious but unfortunately cannot be discussed here. 1/

Our last category of public spending is government gross fixed capital formation (see Table 11). The remarkable and possibly disturbing aspect of Table 11 is that capital formation is the only category considered here that fell as a share of GDP over the period. 2/ This fall occurred in a period when the rate of growth of these countries slowed down considerably. It would seem that the transfers and the interest payments resulted in a crowding out, within the public sector's budget, of capital formation. In Denmark, the Federal Republic of Germany, the Netherlands, and the United Kingdom, the fall in the ratio between 1970 and 1985 was more than two percentage points. Only in Italy and Luxembourg did the ratio increase over the period.

4. Current revenues

The pressures on governments to increase public spending resulted in very large increases in tax revenue. Especially up to the mid-70s, governments attempted to match the spending increases with increases in tax revenue. However, taxpayer resistance soon started developing, so that governments found it progressively more difficult, politically as

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1/ See on this aspect J. de Larosière, "The Growth of Public Debt and the Need for Fiscal Discipline" (Washington, D.C.: International Monetary Fund, 1984).

2/ Of course if the capital spending that was eliminated was of the unproductive kind this trend is not necessarily an unfortunate one.

Table 10. Interest Payments of EC Countries

(Percent of GDP)

	1970	1975	1980	1983	1985 1/
Belgium	3.4	3.6	6.1	9.5	10.9
Denmark	1.3	1.2	3.9	8.0	9.6
France	1.0	1.3	1.6	2.6	3.0
Germany, Fed. Rep. of	1.0	1.4	1.9	3.0	3.0
Greece	0.9	1.4	2.4	3.4	5.1
Ireland	--	4.5	6.7	9.7	10.9
Italy	1.8	4.0	6.3	9.0	9.7
Luxembourg	1.2	0.9	0.8	0.9	1.2
Netherlands	3.0	3.1	3.7	5.8	6.4
United Kingdom	3.9	4.0	4.9	4.9	5.0
Average	1.9	2.5	3.8	5.7	6.5

Source: EC.

1/ Estimated.

Table 11. Government Gross Fixed Capital Formation of EC Countries

(Percent of GDP)

	1970	1975	1980	1983	1985 1/
Belgium	4.2	3.8	3.9	3.0	2.6
Denmark	5.0	3.9	3.4	2.3	2.0
France	3.9	3.9	3.0	3.1	2.9
Germany, Fed. Rep. of	4.6	3.9	3.8	2.6	2.5
Greece	--	--	--	3.7	3.8
Ireland	--	5.6	6.0	4.4	4.0
Italy	3.1	3.6	3.4	4.2	4.3
Luxembourg	3.7	6.6	7.4	6.6	5.9
Netherlands	4.8	4.1	3.3	2.7	2.6
United Kingdom	4.8	4.7	2.5	1.9	1.8
Average	4.3	4.5	4.1	3.5	3.2

Source: EC.

1/ Estimated.

well as administratively, to continue matching the increase in spending with increases in revenue. Governments became also aware of disincentive effects associated with high marginal tax rates and of the stimulus that high taxation might give to underground economic activities. The taxes that increased the most were those on personal incomes. 1/ The net result was that somewhere around the mid-70s many countries started running large fiscal deficits.

Table 12 provides statistical information on current revenue for 22 countries. These are mostly tax revenues but include also fees and other current receipts of governments. In 1960 hardly any country had a ratio of current receipts to GDP higher than 35 percent and the average for the OECD countries combined was 28 percent of GDP. By 1983 ten countries had ratios exceeding 45 percent, and five countries had ratios exceeding 50 percent. The average for the whole group had risen to 43 percent of GDP. In spite of this very large increase in revenue, fiscal deficits rose as public spending literally exploded.

It is unlikely that in the next several years we shall experience the same increases in tax revenue experienced in recent years. The general view at the moment is that, if anything, the level of taxation is too high in many, if not in all countries, and it must come down. Therefore, a reduction in the level of fiscal deficits can only come from expenditure reductions.

5. Fiscal deficits and public debt

In the majority of industrial countries the growth of public expenditure has outpaced the growth of current revenue. The net result has been that many of these countries have experienced substantial fiscal deficits, which have led to a growing share of public debt in GDP. 2/ This, in turn, has resulted in increased interest payments, which has made containing fiscal deficits even more difficult.

1/ Between 1965 and 1983 taxes on personal income as a percentage of GDP rose from an unweighted average of 7 percent to one of 12 percent for the OECD member countries. Much of the increase was concentrated in the 1965-75 period.

2/ See Vito Tanzi, "The Deficit Experience in Industrial Countries" in Essays in Contemporary Economic Problems, The Economy in Deficit, Phillip Cagan, editor (Washington, D.C.: American Enterprise Institute, 1985).

Table 12. Current Receipts of Government

(Percent in GDP)

	1960	1971	1975	1983
United States	26.8	28.9	29.7	31.7
Japan	20.7	21.6	24.0	30.4
Germany, Fed. Rep. of	35.0	39.4	42.6	45.2
France	34.9	38.3	40.3	47.0
United Kingdom	30.1	38.4	40.3	42.5
Italy	28.8	31.1	31.2	45.3
Canada	26.0	35.3	36.9	39.0
Average of the above	28.9	33.3	35.0	40.2
Australia	25.4	28.4	31.0	32.9
Austria	31.0	40.5	42.9	46.6
Belgium	27.5	35.7	40.4	44.6
Denmark	27.3	46.4	46.1	53.1
Finland	29.7	35.8	37.9	37.4
Greece	21.1	26.6	27.4	33.1
Iceland	36.4	34.0	35.6	--
Ireland	24.8	36.3	34.7	47.1
Luxembourg	32.5	37.7	49.0	60.9
Netherlands	33.9	46.8	53.2	54.1
Norway	33.1	46.6	49.6	52.6
Portugal	17.6	23.5	24.8	33.0 1/
Spain	18.1	22.6	24.3	32.1
Sweden	32.1	49.9	50.9	60.4
Switzerland	23.3	26.2	32.1	33.9
Average of the above	27.6	35.8	38.7	44.4
Overall average	28.0	35.0	37.5	43.0

Source: OECD and EC.

1/ 1981.

Tables 13-16 help provide a quantitative dimension to this phenomenon. Tables 13 and 14 provide the fiscal deficits of general governments expressed as percentages of GDP. Table 13 covers the seven major OECD countries, and Table 14, the smaller ones. Table 13 may give a slightly misleading impression, as it starts with 1975, a year in which many countries had sharply increased their public expenditure in an attempt to alleviate the effects of the serious recession that followed the first oil shock. Table 14 shows more clearly the timing of the deterioration in the fiscal balances that took place after the middle of the 1970s. A few countries--Belgium, Greece, Ireland, Italy--are shown to have particularly high deficits, made even larger by the slowdown of economic activity.

The deficits shown in Tables 13 and 14 have inevitably generated large increases in public debt. The share of public debt in GDP has been rising in most countries and, in those countries with very high fiscal deficits, that share has reached worrisome proportions. The relevant information for many OECD countries is shown in Tables 15 and 16. 1/ The implications of high debt ratios have been the subject of intense discussions in recent years. Even though some economists have dismissed the relevance of high debt, most observers, including those in the financial markets, find this trend uncomfortable and view the current developments as worrisome and potentially dangerous. A proper discussion of some of these aspects would require far more time and space than can be allocated in this paper.

IV. Concluding Remarks

The scope of this paper has been a broad one. It has attempted to show why, how, and by how much public spending has grown over recent decades. While in the past the role of government had been mostly limited to allocation, more recently countries began attaching growing importance to the redistributional and the stabilization role. The growth of public spending can be attributed to this enhanced role. Governments were often unable to resist the pressures to increase spending. Such pressures either came from abroad, in the form of demonstration effects from countries that were leading the way toward the welfare state, or they came from other political groups that were

1/ The data shown in Tables 15 and 16 refer to gross public debt of general government. At times data for net public debt and for central government have been shown. Though the ratios would be different from those shown here the trends would be similar.

Table 13. General Government: Fiscal Balances of Major OECD Countries

(Percent of GDP)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985 1/
United States	-4.1	-2.1	-0.9	0.0	0.6	-1.2	-0.9	-3.8	-4.1	-3.4	-4.4
United Kingdom	-4.7	-5.0	-3.3	-4.2	-3.3	-3.7	-3.1	-2.4	-3.5	-3.5	-3.1
France	-2.2	-0.5	-0.8	-1.9	-0.7	0.2	-1.8	-2.5	-3.3	-3.4	-3.3
Germany, Fed. Rep. of	-5.7	-3.4	-2.4	-2.5	-2.7	-3.1	-3.8	-3.4	-2.7	-2.3	-1.5
Italy	-11.7	-9.1	-8.1	-9.7	-9.5	-8.0	-11.9	-12.7	-11.9	-13.6	-13.6
Japan	-2.7	-3.7	-3.8	-5.5	-4.8	-4.5	-3.6	-3.4	-3.3	-2.4	-1.7
Canada	-2.5	-1.7	-2.4	-3.1	-1.8	-2.7	-1.6	-5.0	-6.2	-5.8	-5.0

Source: International Monetary Fund.

1/ Preliminary.

Note: (-) indicates a deficit.

Table 14. General Government: Fiscal Balances of Smaller OECD Countries

(Percent of GDP)

	Australia	Austria	Belgium	Denmark	Finland	Greece	Ireland	Netherlands	Norway	Spain	Sweden	Switzerland
1970	2.9	1.0	-2.0	3.2	4.3	-0.1	-3.6	-0.8	3.2	0.7	4.4	0.2
1971	2.4	1.5	-3.0	3.9	4.5	-0.9	-3.5	-0.5	4.3	-0.6	5.2	-1.1
1972	2.2	2.0	-4.0	3.9	3.9	-0.3	-3.2	-0.6	4.5	0.3	4.4	-1.1
1973	-0.2	1.3	-3.5	5.2	5.7	-1.4	-3.8	0.6	5.7	1.1	4.1	-0.7
1974	2.4	1.3	-2.6	3.1	4.6	-2.2	-6.9	-0.4	4.7	0.2	2.0	-0.9
1975	-0.6	-2.5	-4.7	-1.4	2.6	-3.4	-11.1	-3.0	3.8	0.0	2.8	-1.5
1976	-3.0	-3.7	-5.4	-0.3	4.8	-2.6	-7.5	-2.9	3.1	-0.3	4.5	-1.8
1977	-0.7	-2.4	-5.5	-0.6	3.1	-2.1	-6.7	-2.1	1.7	-0.6	1.7	-1.1
1978	-2.2	-2.8	-6.0	-0.3	1.4	-1.7	-8.7	-3.1	0.6	-1.8	-0.5	-0.1
1979	-1.5	-2.4	-7.0	-1.9	0.5	-1.9	-10.6	-4.0	1.8	-1.7	-3.0	-0.5
1980	-0.6	-1.7	-8.6	-3.3	0.5	-2.7	-11.9	-4.0	6.6	-2.0	-3.7	0.1
1981	-0.1	-1.6	-14.1	-6.9	1.3	-11.9	-13.2	-5.4	5.4	-3.0	-4.9	0.6
1982	-0.4	-3.1	-12.6	-9.3	-0.4	-8.5	-14.7	-7.0	5.3	-5.3	-6.3	-0.2
1983	-4.1	-3.4	-13.4	-7.5	-1.5	-9.5	-11.0	-6.1	4.5	-5.3	-4.9	-0.5
1984	-3.7	-2.2	-11.8	-4.5	-0.1	-10.3	-10.0	-5.7	6.3	-5.0	-3.6	...

Source: OECD.

Note: (-) indicates a deficit.

Table 15. General Government Gross Debt: Major OECD Countries

(Percent of GDP)

	United States	Japan	Fed. Rep. of Germany	France	United Kingdom	Italy	Canada
1970	46.2	12.1	18.4	29.4	85.8	44.4	54.0
1971	47.1	13.6	18.4	28.4	80.2	52.3	54.2
1972	45.1	17.5	18.8	26.4	74.6	60.1	52.6
1973	41.9	17.1	18.6	25.1	69.3	60.6	46.7
1974	41.2	18.0	19.6	24.7	69.2	57.7	44.4
1975	44.7	22.5	25.0	25.8	65.0	66.8	44.7
1976	45.0	28.1	27.1	24.7	63.8	65.4	42.3
1977	43.4	33.6	28.5	25.2	62.3	65.2	44.2
1978	41.5	42.2	29.9	26.3	59.6	71.2	49.7
1979	39.2	47.6	30.7	26.2	55.6	70.4	46.9
1980	39.5	52.9	32.5	25.0	54.9	67.2	47.9
1981	38.2	58.1	36.3	25.9	54.9	70.3	47.7
1982	42.2	62.2	39.4	28.3	53.4	76.6	53.5
1983	45.0	68.2	41.0	29.8	53.9	84.2	58.7
1984 1/	45.8	69.3	41.9	31.8	55.9	91.4	63.4
1985 2/	48.3	69.4	42.2	34.0	56.5	99.4	69.2

Source: OECD.

1/ Partly estimated.
2/ Forecasts.

Table 16. General Government Gross Debt: Smaller OECD Countries

(Percent of GDP)

	Australia	Austria	Belgium	Denmark	Finland	Greece	Ireland	Netherlands	Norway	Spain	Sweden	Switzerland
1970	41.7	19.4	73.3	11.3	15.2	21.3	65.6	51.4	48.4	14.4	30.7	37.5
1971	38.3	18.2	72.3	11.5	13.7	21.9	64.6	49.3	49.1	16.4	31.0	37.5
1972	35.9	17.5	71.4	10.0	12.4	23.2	60.8	46.6	50.3	14.9	30.8	37.1
1973	31.8	17.5	69.5	7.9	10.2	19.4	57.9	43.2	48.8	13.2	30.1	36.4
1974	29.2	17.6	64.8	7.4	8.1	20.3	65.1	41.3	45.9	12.6	30.5	37.5
1975	28.5	23.9	65.8	11.9	8.6	22.4	72.3	41.3	48.2	12.9	29.6	42.2
1976	27.8	27.4	64.8	14.6	9.0	22.1	78.8	40.1	50.3	12.6	27.7	46.3
1977	29.1	30.1	68.5	18.1	10.4	22.4	76.4	39.7	57.0	13.7	30.1	45.9
1978	30.3	33.9	71.9	21.9	13.5	29.4	80.0	40.9	64.0	13.9	34.8	45.1
1979	29.5	36.0	77.1	27.2	14.0	27.6	84.9	42.7	66.3	15.7	39.6	44.1
1980	26.2	37.2	82.8	33.5	13.9	27.7	87.7	45.9	55.9	17.7	44.8	42.6
1981	23.4	39.2	97.2	43.5	14.7	32.8	94.1	50.3	50.4	21.3	52.9	39.9
1982	22.9	41.3	106.2	53.0	17.1	36.4	103.9	55.6	45.8	26.4	62.6	38.8
1983	24.8	45.8	115.6	62.7	19.8	41.4	113.2	62.3	42.6	31.8	66.0	38.3
1984 1/	24.9	47.1	121.8	67.6	20.2	47.5	119.1	66.9	36.1	38.4	69.4	39.5
1985 2/	25.2	48.5	126.6	68.6	20.2	53.2	128.3	70.3	31.4	41.7	71.4	—

Source: OECD.

1/ Partly estimated.
2/ Forecasts.

ready to promise the electorate that various social problems could be solved through additional public spending. As many surveys of taxpayers' opinions have often shown, public spending is always popular, but taxes are not.

For a while, countries attempted to follow traditional financial principles by raising taxes to finance the additional expenditure, but as the tax burden rose so did taxpayers' resistance to additional taxes. Furthermore, high taxes began to be seen as having deleterious effects on the economy. The net result was the almost universal rise in fiscal deficits and, consequently, in public debt. Hardly any country has fully escaped this pattern.

Although some would disagree, the consensus now is that fiscal deficits will have to be cut in many countries. Such cuts would relieve the pressure on the financial market that, in the view of many, has kept interest rates at historically high levels; 1/ they would also reduce the growth of interest payments that have become the fastest-growing category of public expenditure. It is unlikely that these deficits can be reduced substantially by raising taxes much beyond their present level as this level is already very high. However, a few countries may still have as an option the raising of taxes. Thus, expenditure must come down. As entitlements and other social expenditures have contributed the most to the growth of public spending, they are the obvious candidates for reduction.

A question worth asking is: Are we sure that what we have bought with the sharply higher spending of recent years is so important as to make us ignore the actual and potential dangers of sustained fiscal deficits and growing public debt? When we compare some of the countries in which the level of public spending has recently approached 60 percent of GDP with, say, Switzerland, where it is still around 30 percent, can we identify the social goods that those countries have purchased with the extra 30 percentage points of spending? Are such indexes as life expectancy, health, literacy, job security, unemployment, income distribution, which governments try to manipulate through spending, clearly better in those countries than in Switzerland? If the answer to this question is no, then, perhaps, there is scope for a reassessment of many of the spending categories. In this connection we must reflect on whether the trends described in this paper do not validate at some point Bastiat's

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1/ See Vito Tanzi, "Fiscal Deficits and Interest Rates in the United States: An Empirical Analysis, 1960-84" in IMF Staff Papers, December 1985.

century-old definition of the state. As he put it: "The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else". 1/ The growth in many countries of tax expenditures and of entitlement programs and subsidies not necessarily related to the "public interest" make Bastiat's cynical definition one that cannot be dismissed as the extreme view of a conservative economist. The growing literature on "rent seeking" is nothing but a belated recognition that Bastiat's definition incorporates a hypothesis that may be based on a realistic, though cynical, view of the growth of public spending. 2/

1/ Frédéric Bastiat, Selected Essays on Political Economy (Princeton: D. Van Nostrand Company, Inc., 1964), p. 144. The essay titled "The State" was published in French in 1948. In an interesting paper entitled "An Aspect on Structural Changes of Public Expenditures," Professor Keimei Kaizuka has argued that the growth of public spending in recent decades has been of such a character as indicating that special interests have prevailed over the general interest (mimeo, June 1984).

2/ On "rent seeking," see James Buchanan, Robert Tollison, and Gordon Tullock, Toward a Theory of the Rent Seeking Society (College Station, Texas: Texas A & M Press, 1980); and Robert Tollison, "Rent Seeking: A Survey," Kyklos, Vol. 35, 1982, pp. 575-602.

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