Chapter 5

Convergence in Government Spending

5.1 Introduction

Convergence is a process whose end product is the leveling of productivity of the factors of production. In closed economies, this leveling is brought about by the law of diminishing returns, which in open economies is strengthened by transfers of capital and technology from rich countries to poor and by movements of labor from poor countries to rich. Because immigration restrictions prevent free mobility of labor, the anticipated reductions in real per capita income disparities among countries are destined to be determined by movements of capital and technological transfers as outdated capital stocks in lagging countries are replaced by stocks embodying the most advanced technology (Abramovitz 1986). Whether convergence is working is decided not by whether absolute equality in per capita incomes has been attained but by the narrowing of disparities of per capita incomes. In other words, convergence is identified as a trend toward homogenization that seldom, if ever, results in complete homogenization. Only under the most extreme and totally unrealistic conditions, such as equal and identical human and natural resource endowments, can complete homogenization and absolute equality of real per capita income everywhere in the world be expected.

Government as a major economic agent can and does play an important role in the life of nations; among other things, it can bring the various regions of a country together and facilitate the domestic convergence process through fiscal policies, especially through strategic exhaustive expenditure and transfers. Notwithstanding the research appeal of an investigation of how successfully government performs this function, this chapter focuses on other related issues, making government spending behavior itself the subject of convergence and examining
what convergence trends it exhibits, and how compatible these trends are with certain theories of the public sector and the political realities of Canada during the period from 1961 to 1995.

Regional disparities are quite pronounced across a geographically large and diversified country like Canada, and provincial governments face different problems and encounter different difficulties in their attempts to solve them. Poor provinces do not have the same resources to tackle similar problems as rich provinces, yet they are under continuous pressure to copy the methods employed by rich provinces and to behave generally as if they were rich. If resource scarcities prevent such imitation, the federal government comes to the assistance of poor provinces, and by means of its nation-building measures, which are incorporated in spending programs, in regional equalization payments, and other transfers, it attempts to equalize at least the level of public services throughout the country. Apparently, next to their normal functions, the primary objective of federal governments is an integrative one, consisting of measures that downplay narrow interests in favor of broader interests, and manifesting itself in policies for the attainment of common goals by means of cooperation rather than by means of disjointed separate actions.¹ Integrative relationships arise from the heterogeneous nature of federations and aim at the homogenization of their constituent parts (provinces or regions).² Their ultimate goal demonstrates close similarities with that of convergence, and if real per capita incomes across Canadian provinces are made equal, it is likely that they will be accompanied by a corresponding equality of real per capita government expenditure.

In the spirit of this reasoning, we proceed to investigate the existence or lack of convergence trends in real per capita government expenditures — exhaustive and transfers — that by and large determine government homogenization across Canadian provinces. In accordance with our stated objective, we examine in the next section the methodological issues that are related to our statistical tests. In the third section, we

¹The structural characteristics of social systems have been examined by Boulding (1968, 1970), who emphasized the contribution of integrative relationships and their evolution over time.
²Nation-building in federations is a difficult goal whose attainment appears to be inversely related to the heterogeneity of states or provinces. Owing to the heterogeneity of its provinces, Canada has been characterized as the “most ungovernable country.” Such a characterization immediately suggests the indispensability of integrative policies, without which the country may fall apart. In this context, the constitutional debates find their justification. Constitutions are trust-building arrangements that promote legitimacy and increase the efficiency with which power is exercised by government institutions. Because of the trust they inspire, constitutions render the results from government policies fair or just — for an elaborate analysis of constitutional change, see Breton (1984).