The growth of government: A protection explanation

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1. Introduction

In the 20th century, and especially since World War Two, the share of government spending in GNP has grown very rapidly. An extensive literature exists which attempts to explain the growth of government (Larkey, Stolp and Winer, 1981). Most studies by economists of government expenditure try to explain the growth of government in terms of the demand for and (less frequently) the supply of public goods and transfers. According to this view the growth to be explained is the increase in government provision of public goods and transfers.

We believe this approach is not entirely satisfactory. Since public goods are considerably less than half of government expenditures, designating the rest of government expenditure as 'transfers' raises at least three problems. First, there seems to be no relationship in effects and motivation between public goods and transfers, therefore, combining them seems a bit ad hoc. Second, since the greater part of government expenditure is not on public goods, if all the rest is transfers, this creates a paradox because transfers normally benefit the minority at the expense of the majority. Thus if the largest share of expenditure by 'democratic' governments is not in the interest of the majority, what real content is there to the term 'democratic'? Third, the term transfers as normally used is vague to the point of being almost empty. All government programs are bound to produce some transfers since it is impossible to make the incidence of net benefits exactly equal to the pre-program distribution of income. Thus the designation of a government program as a 'transfer' is operationally empty unless we limit the term to programs where the transfer component is in some sense large relative to any other effects.

Recently in Public Choice Gordon Tullock has suggested that a substantial share of voting is motivated by what the voter thinks is the public or general interest (Tullock, 1984). He was criticized by Pasour for focussing on motivations for supporting government programs rather than on the results of these programs (Pasour, 1985). However, Pasour has missed the
point, studies of 'transfer creating' programs rarely try to measure the size of the transfers received by various groups supporting the program. As far as the authors can determine, there are no studies which address the issue correctly, namely, by asking what are the size of transfers relative to other effects of the government program? The study of such programs has mostly been an exercise in establishing that major supporters stand to receive transfers and then inferring that this is their true motivation for supporting the program.

In this note we believe it is possible to modify the conventional approach and avoid the aforementioned problems. In what follows we make a distinction between 'true transfer' programs and 'conditional general benefit' programs. Furthermore, we explain the growth of government expenditures as largely satisfying a demand for protection.

2. The protection hypothesis

The designation of government programs as 'transfers' misses an important distinction between programs which will never benefit more than a limited subsection of the population and those which will over the long run benefit the majority even if during any given year they only benefit a minority of the population. The former we would term 'true transfer' programs. The later we would not call transfers but rather 'conditional general benefit' programs because they benefit the majority either at a certain point in the life cycle or under circumstances which could occur to anyone. Thus 'true transfers' include the farm program, or subsidies to ship builders, while social security or unemployment compensation are 'conditional general benefit' programs. At any point in time the benefits from social security go only to the elderly, however, over the life cycle, the vast majority of the population will be part of the beneficiary group. In any given year unemployment compensation is a transfer from the employed majority to the unemployed minority, but the majority of people have a significant probability of becoming unemployed and thus benefitting from the program. In sum, we see government programs as running on a continuous scale from those benefitting the whole population unconditionally - national defense - to those benefitting the majority conditionally - social security - to those which benefit only a limited minority - the farm program.

The second modification we would make from the standard approach is to introduce a common thread which ties together all government programs. The basis for this common element is that all major government programs rely on the government's power to coerce. Indeed the legal power to coerce seems to be the essence of government. Looking at government programs in general - independent of who benefits - suggests that the majority are