

**A COMPARATIVE STUDY OF THE GROWTH OF THE
PUBLIC SECTOR IN THE EEC COUNTRIES**

by

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B.A. in Econ., Boğaziçi University, 1983

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Submitted to the Institute for Graduate Studies in
Social Sciences in partial fulfillment of
the requirements for the degree of
Master of Arts
in
Economy

Boğaziçi University

1985

Anneme ve Babama

To my parents

APPROVED BY

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ACKNOWLEDGEMENT

I wish to express my profound gratitude to Prof.Dr. İzzettin Önder for his continuous advice, encouragement and patience throughout the course of this study.

I am also deeply grateful to my parents for supporting me financially and morally during this study.

ABSTRACT

The public economy constitutes a sizeable and vitally important part of the mixed economic system of modern capitalism. The governing factor in public finance being the public expenditures, its upward trend led economists to think about the role of the public sector and the reasons behind this growth.

Since the mercantalism of the seventeenth century the concept of ideal government evolved tremendously and the passive government of the classical school turned into the complex and dynamic state of the contemporary economic thought.

The growth of the public expenditures as one of the striking economic developments of the last two centuries led many economists to provide the economic theory with theories of public expenditures to justify and explain the fact of expenditure growth. To the welfare theories of a prescriptive nature were later added hypotheses developed by Wagner and Peacock-Wiseman bringing a rather descriptive approach to the analysis.

The empirical study of the European Economic Community countries expose facts which are in accordance with the theoretical expectations: Along with economic development, public consumption expenditures generally grow faster than the gross national product while the overhead investments do not follow this relative growth. The government transfer expenditures follow an upward trend and their inclusion into the computations of the public sector's size doubles this percentage size, in nearly all countries.

Ö Z E T

Kamu iktisadı, günümüz kapitalizminin karma iktisadî sistemi içinde büyük ve önemli bir yer tutmaktadır. Kamu maliyesinin asıl unsuru olan kamu harcamalarında görülen artışlar iktisatçıları devlet sektörünün rolü ve bu artışların gerisindeki sebepler hakkında düşünmeye zorlamıştır.

17 inci yüzyıl merkantalizminden beri ideal devlet kavramı büyük deęişimlere uğramış ve klasik okulun pasif devlet anlayışı günümüzün karmaşık ve dinamik devlet anlayışına dönüşmüştür.

Son iki asrın en çarpıcı iktisadî gelişmelerinden sayılan kamu harcamaları artışları, birçok iktisatçıyı bu artışları doğrulayıcı ve açıklayıcı teoriler üretmeye yöneltmiştir. Daha çok düzenleyici bir yaklaşımı olan refah teorilerine daha sonraları Wagner ve Peacock-Wiseman tarafından açıklayıcı hipotezler eklenmiştir.

Avrupa Ekonomik Topluluęu ülkelerine ait veriler teorik beklentilerle oldukça uyumlu bulunmaktadır. İktisadî gelişmeyle birlikte devletin tüketim harcamaları genellikle gayrisafi millî hasıladan daha hızlı büyümekte ve devletin yatırım harcamaları ya aynı kalmakta ya da düşmektedir. Devletin transfer harcamaları da zaman içinde artmakta ve bu harcamaların devlet sektörü büyüklüęü ölçümüne katılması halinde, devlet sektörü büyüklükleri, hemen her ülkede iki misline çıkmaktadır.

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I. INTRODUCTION

The mixed economic system of modern capitalism includes a sizeable and vitally important sphere of public economy along with the market sector. The larger part of the national output is purchased by private consumers and investors, and the larger part of the product is produced and supplied by private firms. The distribution of income is determined largely in factor markets. Meanwhile, a significant share of the national product goes to satisfy public needs, a substantial part of private income originates in the public budget, and public tax and transfer payments significantly influence the state of private distribution. Moreover, budget policy affects the level of employment and prices in the private sector.

The upward trend of the governing factor in public finance - the public expenditures, enforced economists to think about the reasons behind these expenditure increases, and on the issue of the size of public sector. Especially, after World War II, the rate of growth of public expenditures went up significantly, sometimes exceeding the growth rate of the whole economy and thus increasing the share of the public sector relatively to the private sector. In today's modern economies, the share of the public sector in the economy is mostly as high as 40 percent [1].

[1] ÖNDER, İzzettin, *Kamu Sektörü Büyüklüğünün Ölçülmesinde Karşılaşılan Bazı Problemler* (İstanbul: Sermet Matbaası, 1974), p. 453.

The purpose of this study is to provide a conceptual framework to the role of the government in the history of economic thought and to different hypotheses attempting to explain the growth of the public expenditures, together with an empirical analysis of the public expenditure trends and the relative size of the public sector in the nine EEC (European Economic Community) countries.

The following section expose the evolution in the concept of the role of government. Starting from the mercantalism of the seventeenth century where the role of government was to provide the legislature which might best promote the national interest by promoting the interest of the merchant class, the analysis is entended to the classical views of "passive state" and then to the Keynesian "dynamic" role of the government. Different approaches to the interpretation of public expenditure growth are also presented in this section. The "prescriptive" approach of welfare economics to public expenditures are compared to the Wagner's Law that as the economy grows, the relative size of the public sector grows also and to the hypotheses of Peacock and Wiseman: In times of crisis or social disturbances, public revenues and expenditures are shifted to higher levels and may stay there after the disturbances are over. In addition to this effect called "the displacement effect" there is also a "concentration process" through which, as revenues of the central governments increase faster than those of the local units, the public expenditures get more and more concentrated into the hands of the central governments.

The theoretical and conceptual issues are illustrated with an analysis of the development of public expenditures in the EEC countries

for years 1960-1980. The methods used for the preparation of the individual country tables on the public expenditures and the size of the public sector are explained in the method part of the third section. Finally, the interpretations of the statistical results and the conclusions drawn are brought forward.

II. THE ROLE AND GROWTH OF THE PUBLIC EXPENDITURES

2.1 ROLE OF THE PUBLIC SECTOR

The public sector of a modern nation is an economic organization of great size and complexity, and of growing importance in the life of the community.

The modern economic theory sees the government as a support unit or directional factor in attaining economic goals. The government preserves the effectiveness of the market mechanism by regulating essential features of competition and attempts to correct the deteriorations in the income distribution through income transfers.

The meaning and economic role attributed to the government and public expenditures varied a great deal through out the history of economic thought. Not until the 1950's that the public expenditures have been viewed as a separate branch of economics and the scope of public finance studies has been kept in the field of taxation.

With the decline of feudalism and the rise of the merchant class into power, economists representing mercantilist interests pointed out how the legislature might best promote the national interest by promoting the interest of the merchants through protective tariffs, bounties

on exports, monopolist charters for joint stock companies, navigation laws, or the exploitation of colonies and their own agriculturalists. The mercantilism which flourished in the seventeenth century culminating with John Locke and the British revolution of 1689, was later heavily criticized by the French Physiocrats, the innovators of "laissez faire" which grew for thirty years in France during the mid-eighteenth century [2].

The Classical School economists refined the concept of "laissez faire", perceived the role of the state as a passive one, their economic basis of government resting upon the ancient theory of the state as the protection of persons and property, and with the exception of Adam Smith and John Stuart Mill paid no attention to public expenditures.

According to Smith the "duties of the Sovereign" fell into three classes. The first duty of the State was that of "defending the society from the violence and injustice of other independent societies"; the second was that of securing internal justice between citizens. For modern conditions Smith's "third duty" is the most interesting. It was defined as "erecting and maintaining those public institutions... and works, which though they may be in the highest degree advantageous to a great society, could never repay the expense to any individual". Among such "works" he considered "those for facilitating the commerce of the society, and for promoting the instruction of the people" [3]. Smith's third duty could be described in modern terms as expenditure for economic and social ends. It is remarkable that in eighteenth-century England Smith has already foreseen the development of these two branches

[2] Henderson, William L. and Helen A. Cameron, *The Public Economy*, (New York: Random House, 1969), p. 10.

[3] Smith, Adam: *The Wealth of Nations*, Vol. II (London: Everyman's Library, J.M. Dent and Sons Ltd., 1960), pp. 211-298.

of public expenditures which have now come to exceed all others in size and importance [4]. Smith also realized the part which the state could play in providing collective services which might be desired by all, but would yet be beyond the scope of private enterprise [5].

J. Stuart Mill's recommendations for government intervention in the economy were based on the dominance of the private sector and superiority of self interest as an economic motive. He admitted, however, that there were urgently needed activities which the government would have to perform because private individuals would not or could not provide them. His belief in the social contract theory of the origin of the state made implicit his idea that the functions of the state should be directed toward the protection of liberty and individuality, for him the bases of human happiness [6].

The fact that classical economists had that narrow view of the role of government was a reflection partly, of the school of thought they belonged to and partly of the social and economic conditions of their time. According to classical writers, interference by government in economic life would endanger the natural tendency for men to obtain the greatest satisfaction from limited resources and would ruin the optimal market equilibrium. Also the government was considered as a consumptive rather than a productive institution. At the end of eighteenth century, economies were just stepping into the industrial revolution and

[4] Hicks, Ursula: *Public Finance*, 2nd ed., *Cambridge Economic Handbooks*, (Cambridge: James Nisbet and Co. Ltd. and the Cambridge University Press, 1961), pp. 15-16.

[5] Smith, Adam: *op.cit.*, pp. 182-211.

[6] Mill, J.S., *Principles of Political Economy*, Ashley Edition (London: Longman, Green, 1909), p. 950.

capital intensive investments were just being necessary. Furthermore, the degree of monopolization has not yet reached the level to require government intervention. Likewise the social security matters were not considered as conciously as they are today [7].

The belief in the effectiveness of "laissez faire" that prevailed for the first seventy years of the nineteenth century in Great Britain changed with the growth of state intervention and state control that occurred in the last thirty years. In the development of neoclassical economic theory after 1870, economists applied the idea of calculations of amounts of "utility" for happiness directly to the problem of economic theory itself. As an outcome flourished the idea that state should look beyond the needs of the individual to the larger collective needs of society - the welfare of the group. Expenditures for social purposes towards the close of this period put an end to the popularity of low taxation on high incomes and to the principle of minimizing the functions of the state. The growing strength of working class opinion gave rise to new public goals which influenced the way in which resources were used and income was distributed. The neoclassical economists, who found exceptions in "laissez faire" or necessary conditions for laissez-faire unfulfilled, started to move in the direction of a moderate interventionism which would make the actual system work more nearly like the ideal model of free competition [8].

[7] Önder, İzzettin: *Türkiye'de Kamu Harcamalarının seyri: 1927-1967*, İstanbul Üniversitesi Yayınları, No. 1925, (İstanbul: Fakülteler Matbaası, 1974), p.4.

[8] Henderson, William L. and Helen Cameron: *The Public Economy*, op.cit., pp. 13-15.

The depressions of the 1930's destroyed the classical assumptions of spontaneous full-employment of labor and efficient use of resources, and a new concept emerged: the "dynamic" role of the government. The importance of government fiscal activity in moving the economy toward full employment was observed by John Maynard Keynes in his "General Theory". His main emphasis was upon government spending - not thrift. From this emphasis followed proposals for state intervention in the economy to assure adequate demand [9]. Consequently, the role of government was broadened to include an "anti-depressionary" function which would help the economies to overcome severe depressions [10].

In the second half of the twentieth century, it has been generally agreed upon that the public expenditures contributed largely to the expansion of the national product: In the first place, the state was responsible for providing the basic economic foundation in the form of "overheads" of an economic and social nature without which existing resources could not be made fully available or to put to their best uses. In the second place, public expenditure could increase economic productivity directly, both by providing assistance for the establishment of new industries and the introduction of better agricultural methods, and by itself undertaking production and trading [11].

With the establishment of economic unions in the second half of our century a new function was assigned to public expenditures. The aim of economic unions was to establish the real competition environment by preventing all kinds of fiscal intervention to the cost factors

[9] *Ibid*, pp. 15-16.

[10] *Önder, İzzettin: op.cit.*, p. 8.

[11] *Hicks, Ursula: op.cit.*, p. 294.

in the member countries: Governments might interfere with the cost conditions of the markets through taxation as well as through public expenditures as cost reducing factors. Especially after the establishment of the EEC (European Economic Community), the harmonization of public expenditures became a commonly discussed issue. By the harmonization of public expenditures two targets were to be attained. First, public expenditures of the member countries would be neutral to the supply functions of their economies. Secondly, as long as the neutrality of the public expenditures has not been provided, they should affect the supply functions in the same direction in all member countries. According to this approach, a passive role has been assigned to the public expenditures [12].

2.2 APPROACHES TO THE INTERPRETATION OF PUBLIC EXPENDITURE GROWTH

The tremendous growth of government expenditures as one of the striking economic developments of the last two centuries, led economists to provide the economic theory with theories of public expenditures to justify and later to explain the facts of expenditure growth.

2.2.1 Welfare Theories

Most generally, economists considered the public expenditures in the framework of studies attempting to set up criteria for the size and nature of government expenditures and income by utilizing techniques

[12] Öner, İzzettin: *op.cit.*, p. 8.

proper to the study of market economics. Starting from some concepts of economic welfare, defined in terms of individual choice, they attempted to specify the taxing and spending activities of government that would conduce to the ideal conditions of such welfare. At the extreme, this led to proposals for systems of public finance in which the government provided only the services that individuals would pay for directly, if that were feasible, and levied only such taxes as individuals voluntarily would pay in return for the services they received. Alternatively, the government was viewed by such writers as a unitary being, with tastes and preferences like other beings. Its income and expenditure could then be examined as those of an individual, and the size and character of the public sector prescribed by the application of marginal criteria similar to those generally employed, for instance, in the study of individual consumers. Furthermore, the political voting system was an alternative to the market voting system and the best of alternative political systems was the one which achieved the postulated objective: attainment of the ideal conditions of individual choice [13].

These theories, using the system of market analysis, commonly known as welfare economics, approach the study of public expenditures from a prescriptive point of view. The fact is that they treat the problems of government and political behavior in an unrealistic fashion. Governments are not concerned solely with interpreting the choices of the individuals in the society: they also depend on their power to compel for their existence. The fact that governments have not in the

[13] Peacock, Alan T. and Jact Wiseman, *The Growth of Public Expenditure in the United Kingdom*, NBER. number 72; General Series (Princeton: Princeton University Press, 1961), pp. 12-13. On this issue Peacock and Wiseman give reference to A.C. Pigou., *A Study in Public Finance*, 3rd rev.ed. (London: 1947), PART I, Chap. V.

past tried to achieve the aims that the welfare theories postulate for them, proves these theories to be not operational [14].

2.2.2 Wagner's Law

Against the "prescriptive" approach of welfare economics to public expenditures, were developed macro-theories of a descriptive nature [15]. The fact that these theories were all based on empirical studies made them valuable in the sense that they provided practical guidelines to the study of public expenditures.

A first attempt to establish generalizations about government expenditures, not from postulates about the logic of choice, but rather by direct inference from historical evidence came from H.C. Adams writing in America in 1898 [16]. Adams thought that the available statistics suggested [17] a "law" that government expenditure must grow in proportion to a community's output per head and he attributed this growth of expenditure to some historical events such as the growing debt burden on the states and wars.

In the same period, however, Continental writers of the Younger Historical School, and particularly Adolph Wagner, went further than Adams, arguing that government expenditures increase at an even faster rate than output, in other words, the relative size of the public sector

[14]Peacock, Alan T. and Jack Wiseman, *op.cit.*, p. 14.

[15]Peacock, Alan T. and Jack Wiseman, *op.cit.*, p. 16.

[16]Adams, H.C., *The Science of Finance (New York:Henry Holt and Co.1898)*, Ch.2.

[17]*Towards the end of the 19th century, countries like Prussia, Bavaria, Britain, North America, Switzerland had in common a rising trend of output per head, but differed in other important respects.*

grows [18]. The core of his argument, in his own words, was that "The law [of increasing state activity] is the result of empirical observation in progressive countries, at least in Western European civilization; its explanation, justification and cause is the pressure of social progress and the resulting changes in the relative spheres of private and public economy, especially compulsory public economy. Financial stringency may hamper the expansion of state activities, causing their extent to be conditioned by revenue rather than the other way round, as is more usual. But in the long-run the desire for development of a progressive people will always overcome these financial difficulties" [19].

The first point of importance about his argument is that Wagner's "law" is a law of increasing government expenditures deriving from the growth in state activity: to the extent that such increased activity is the inevitable accompaniment of social progress, and only to that extent, increased expenditures are inevitable also. It is also clear that the law is concerned with the secular behaviour of expenditures rather than with short-run change or the actual process of change. Also, Wagner does not suggest that the actual extent of state activity can be fixed a priori. He is concerned with the rate of growth of expenditure and bases his argument on empirical facts [20] that as

[18] *It is not clear if Wagner was referring to growth in the ratio of government expenditure to GNP, i.e. the relative growth in the public sector, or if it was the absolute size of the public sector that Wagner was thinking of. Here Musgrave's interpretation is followed. See R.A. Musgrave, Fiscal Systems (New Haven: Yale University Press, 1969), p. 72, n.1.*

[19] *Wagner, Adolph: Finanzwissenschaft, 3rd ed. (Leipzig, 1890), Part I, p. 16.*

[20] *Wagner had observed the growth of the public sectors of a number of European countries plus the U.S.A. and Japan during the nineteenth century.*

output per head increased in the past. state activity and expenditure grew more than proportionately.

To explain the existence of the law, Wagner distinguished between three types of state activity, separate reasons for expecting the law to hold for each type of activity [21].

The first group concerns those activities of the state, which evolve through the economic development: as the economy develops the tasks of the organs and institutions of the government (e.g. in making and enforcing laws, providing a police force and an army) must both change in character and become more complex and difficult. At the same time, increasing division of labor multiplies the complexities of economic life and hence the possible causes of friction. Thus state activities of a preventive and repressive character have to increase. On the other hand, with the development of technology, cost of public activities rise. This is partly because the state increases its activities in order to ensure the maintenance and improvement of the quality of the services it provides and partly because of the productivity difference between the private and the public sector. Along the technological developments the productivity of labor in the private sector increases faster than in the public sector and thus the unit cost in the public sector goes up faster than in the private sector. If Baumol's thesis [22] is incorporated into this analysis, then the difference of productivity between public and private sectors together with a low price elasticity of demand for public goods and services, will account

[21] Peacock, Alan T. and J. Wiseman, *op.cit.*, p. 18.

[22] Baumol, William J., *American Economic Review*, Vol. LVII (June, 1967), pp. 415-26.

for the rise of total outlays on these public goods and services relative to the national product.

Growing state participation in material production, as the second type of state activity, develops because technical progress necessitates large amounts of capital investments which the private sector can not make and even if they could, they might not be able to handle large amounts of capital as effectively as a public corporation and they may mismanage and waste capital during business cycles.

Finally, provision of other economic and social services must arise where technical developments produce favorable conditions for monopolies and where the social benefits of the service are not susceptible to economic evaluation (e.g. education). For Wagner these services represented superior or income-elastic wants. Thus as real income in the economy rises (i.e. as GNP increases) public expenditures on these services would rise more than in proportion, which would account for the rising ratio of government expenditure to GNP [23].

2.2.3 The Displacement Effect and the Concentration Process

Wagner's argument, although it is concerned with actual facts and tries to explain them and draws attention to the importance of the permanent influences on public spending and to the effect of the increasing complexity of economic life on the necessary functions of government, its interest is in the secular trend of expenditures. The famous study by A.T. Peacock and J. Wiseman [24] considers the time pattern of public

[23] Buchanan, J.M. and Marilyn R. Flowers, *The Public Finances*, 4th ed., (Homewood, Illinois: Richard D. Irwin, Inc., 1975), p. 59.

[24] Peacock, A.T. and J. Wiseman, *op.cit.*, p. 20.

expenditure growth. Peacock and Wiseman recognize the importance of diverse and complex general influences (e.g. population increases, urbanization, industrialization and technical change, inflation, changing expectations) upon public expenditures. But they do not see a potential in these permanent influences to support the claim of Wagner's law or to suggest some general hypothesis that might explain the behaviour of government expenditures through time; the behaviour of public expenditures over any period depends on factors that can differ in influence and importance from one time to another, from one country to another. Also, changes in the size of the government sector and hence of public expenditures are bound to be effected by the political nature of the society and by current views on the role of government.

The need for general hypotheses about public expenditures to provide an explanation of the facts in any country over any particular period has been the stimulating factor in the development of Peacock-Wiseman's two hypotheses.

Before Peacock and Wiseman formulated their "displacement effect" hypothesis, the most popular approach on the behaviour of public expenditures was that of "incrementation": The political decision makers preferred smooth changes, instead of sharp increases in the level of public expenditures; policy makers did not usually analyze all the possible policy alternatives but made a marginal choice among the available ones. Consequently, as long as there was no sudden change in the political power, smooth changes were preferred to from-year-to-year sharp increases [25].

[25] Lindblom, Charles E., "Decision Making in Taxation and Expenditures", *Public Finances: Need, Sources and Utilization*, NBER, (Princeton: Princeton University Press, 1961), pp. 305-12.

Peacock-Wiseman perceive the divergence of the revenue and expenditure ideas of citizens as the potential mean of explaining the time pattern of government expenditure growth in a large number of societies. "Governments like to spend more money, citizens do not like to pay more taxes, and governments need to pay some attention to the wishes of their citizens" [26]. People have fairly stable ideas about the tolerable burden of government taxation when they are not subjected to sudden, violent pressures or disturbances. Government expenditures, in such periods may rise but at steady rates in connection with the rise in real output. Much more rapid rates of expenditures growth necessitate higher rates of taxation and are unlikely; in settled times, notions about taxation are likely to be more influential than ideas about desirable increases in expenditure in deciding the size and rate of growth of the public sector. Hence, there may be a persistent divergence between ideas about desirable public spending and ideas about the limits of taxation. This divergence can be adjusted by social disturbances that destroy established conceptions and produce a "displacement effect".

The displacement effect has two aspects. In times of crisis people will accept methods of raising revenue formerly thought intolerable and the acceptance of new tax levels remains when the disturbance is over. Expenditures which the government thought desirable, but which it did not dare to implement, consequently become possible. At the same time, social upheavals impose new and continuing obligations on governments both as the necessary after-disturbance functions (e.g. war pensions, debt interest, reparation payments) and as the result of

[26] Peacock, A.T. and J. Wiseman, *op.cit.*, p. xxv.

changes in social ideas. Wars often force the attention of governments and of the people to problems of which they were less conscious before, and it is called by Peacock-Wiseman as the "inspection effect".

Alongside the displacement effect, there is another influence, called the "concentration process". It is concerned with changes in the responsibility for public expenditures rather than with changes in the total volume of public expenditures. In many countries, the functions of government are shared between a central authority and other local authorities whose powers are protected by statute or conferred by the central government. While local autonomies have many defenders and their preservation is important as a political matter, economic development produces changes in the technical efficiency level of government and produces demands for equality of treatment (e.g., in services as education) over wider geographical areas. A relative evolution of the expenditures undertaken at different levels of government results from these opposing pressures. This process has two aspects: The difference between the revenues of the local and central authorities continuously increase in favor of the latter and thus services are concentrated in the hands of the central authorities and secondly decisions on what levels of government the services will be rendered must rest on the economic analysis of carrying different governmental services at different governmental levels.

It has been empirically observed and argued that public expenditures are being centralized [27]. This argument is relevant to the

[27] Peacock, A.T., and J. Wiseman, *op.cit.*, pp. 29-30 and Peacock, A.T. and J. Wiseman, "Measuring the Efficiency of Government Expenditure". *Public Sector Economics*, Editor: A.R. Prest (Manchester: Manchester University Press, 1968), p. 38.

thesis that "expenditures are a function of revenues" because it is observed that revenues of central governments increase faster than that of local governments, and it is expected that central authorities will increase then expenditures at a rate higher than that of local authorities.

The most important argument favoring the concentration is the externalities of public expenditures. The benefits of some public services are not limited to the area or people they have been rendered but spreads out to the neighbourhood or to the society as a whole (e.g. pollution control, education). This fact originates from the indivisibility principle and the external benefits of public services. If the implementation of such services are left to the local units then either services will be produced under the optimum level or although other units also enjoys the benefits the unit that is responsible for the expenditures will bear the cost and there will be somekind of an income distribution effect in favor of the "side-benefiters". As the externalities of such character are impossible to avoid, best is to let the central units carry out those services [28].

A second argument is that if public expenditures are concentrated then uniform standards of public services will be attained at all units and profiting from the scale-economies of large scale production social welfare could be increased [29].

[28] Houghton, R.W., *Public Finance*, Penguin Books (London: Cox and Wyman Ltd., 1968), p. 171.

[29] Peacock, A.T. and J. Wiseman, "Measuring the Efficiency of Government Expenditure", *op.cit.*, p. 38.

Also, the difference of revenues between local units might produce that while some regions are in need of services and cannot afford them other relatively richer regions are able to finance even the secondary social needs. Through concentration some of the richer regions' revenues can be transferred in form of services to the poorer local units. As local units can not manage such marginal adjustments the concentration becomes even a must [30].

The only argument in favor of leaving public services to local government units concerns the possibility that some services might provide effective management of services (e.g. fire departments) whereas if they are rendered by the central authority they might bring excess costs and too much of a bureaucracy.

[30] Önder, İzzettin: *op.cit.*, p. 29.

[31] Eckstein, Otto: *Public Finance, 2nd ed.*, (New Jersey: Prentice-Hall, Inc., 1967), p. 36.

III. THE SIZE OF THE PUBLIC SECTOR IN THE EEC COUNTRIES, 1960-1980

3.1 METHOD

The main concern of this empirical part is to present a comparison of the size and growth of the government sector in the EEC (European Economic Community) countries together with a search for real-life facts to detect the development of government expenditures.

In progressive, growing economies, it is expected that the public sector will expand along with the private sector. The relevant question concerns its comparative growth overtime. For this purpose, it is necessary to reduce the absolute figures to percentages of national aggregates. Therefore the ratio of total government expenditures to the Gross National Product is used as a general indicator of the size of the public sector. At first glance, a comparison of this sort might seem to give a clear general indication of changes in the influence of government in the communities' economic life. But literature on this issue suggests that great caution is required, not only in interpreting the results but also in giving a precise meaning to such terms as government and output when compiling the actual statistics to be compared. It

is therefore necessary to consider closely the components of the general indicator.

It is commonly agreed that every alternative government size indicator has its own short-comings. Therefore, the general indicator adopted, here in this study, is presented with the relevant information on its shortages and the possible problems that may arise.

Public expenditure figures appearing in this study reflect both the income-creating expenditures such as purchases of goods and services, compensation of employees, gross fixed capital formation and transfer expenditures such as subsidies, current grants, capital transfers, debt-services and net lending to private sector. However, the transfers and subsidies are not components of the national income. For that reason, expressing total government expenditures as a proportion of national income may give an exaggerated impression of the share of total community output taken by the government. On the other hand, a similar ratio omitting transfers and subsidies would be without any general significance as a rough indicator of changes in the government's overall influence in the community over time, since transfers and subsidies also have to be financed and are clearly of importance in many economic contexts (e.g. in the use of government expenditures as an indicator of the tax burden implied by the activities of government). On the other hand, inclusion of transfers and subsidies in the public expenditure accounts might save the ratio from being underestimated because of double-countings occurring in national income accounting: Gross Domestic Product includes all capital assets at the time of their creation and does not deduct depreciation in subsequent years but it includes the full value of consumer purchases

which cover among other expenses, depreciation (The value of a factory building appears in GDP twice once when it is constructed, and, also when its depreciated value is reflected into the price of its products that consumers purchase). This kind of double-counting does not occur for a government capital asset because there are no consumer purchases and GDP does not include an estimated value of the services rendered by the government. Considering the above arguments, two separate ratios are calculated for every country (One including transfers and subsidies in the numerator and other omitting transfers and subsidies from the numerator showing total public expenditures).

In the statistics followed in this study, transactions of all agencies whose finances are administered through the general accounts of the public authorities are included in general government expenditure, which transactions of other public enterprises, not so financed, excluded from government sector accounts. This is in accordance with our purpose of measuring to what extent collectively made decisions replace private or individual decisions or to what extent resources are organized by the government bureaucracy or by the market economy. Nationalized industries operate in the market system and interest the government accounts only in cases where they make losses (financed through transfers from government) or prices of their products are subsidised by the government (this kind of transfers and subsidies are included in the government expenditure figures).

Having determined what is meant by government expenditures, it becomes necessary to decide what national income concept is to be used. In this study, Gross Domestic Product at factor cost is used. It has

been a compromise of some degree: Net National Product might have been a more suitable choice but the calculation of depreciations present problems, sometimes so severe that the Net National Product figures are unlikely to give more reliable information than the gross product measure. The reason for Gross Domestic Product at market prices have not been used is that, if GDP at market prices is used, the conclusions that can be drawn are clouded because the ratios of different countries would not only be an indicator of the public sector and national output but would also reflect variations in the tax structures of the countries in question as indirect tax rates may vary from country to country.

The effect of changes overtime in the level of prices is eliminated automatically through the comparison of money value of government expenditure to the money value of national product thus indicating real changes. But the money comparison provides a true reflection of real changes only to the extent that the prices of the things consumed by government change in exactly the same way as prices as a whole. However, the composition of government purchases is not always the same as the composition of the purchases of the community as a whole. Therefore, the best method would be the use of two different price indices one for the government sector and the other for the overall economy. Still, considering the impossibility of funding two different price deflators for each EEC country, it becomes necessary to be content with the qualities of the non-deflated general indicator, always keeping in mind its short-comings on the issue [32].

- [32] *For the determination of the empirical method used in this study, following materials have been most useful:*
- Önder, İzzettin: *Kamu Sektörü Büyüklüğünün Ölçülmesinde Karşılaşılan Bazı Problemler* (İstanbul: Sermet Matbaası, 1974),
 - Önder, İzzettin: *Türkiye'de Kamu Harcamalarının Seyri: 1927-1967*, İstanbul Üniversitesi Yayınları, No. 1925 (İstanbul: Fakülteler Matbaası, 1974), pp. 65-69.
 - Shoup, Carl S., *Public Finance, Aldine Treatises in Modern Economics*, ed. Harry G. Johnson (Chicago: Aldine Publishing Co., 1969), pp.487-500.

3.2 COMPARISON OF THE SIZE OF THE PUBLIC SECTOR IN THE EEC COUNTRIES, 1960-1980

The conceptual framework presented in the first section emphasizes the growing importance attributed to the growth of public expenditures and the various reasons behind this growth. However, a real contribution would also necessitate an examination of the real-life data on the issue.

The expenditure behavior of the EEC countries seems to provide a good measure to detect the public expenditure trends and the relative growth of the public sector for the last twenty years.

Under the terms of the Treaty of Rome setting up the European Economic Community (EEC or Common Market), signed on March 25th, 1957, six Western European countries [33] - Belgium, France, The Federal Republic of Germany, Italy, Luxemburg and the Netherlands - voluntarily delegated certain of their national powers to Community Institutions. The major aim of the union was to ensure the economic and social progress of the member countries by common action in abolishing custom duties, qualitative and quantitative trade restrictions and in establishing a common commercial policy so that free competition is not distorted and allocative efficiency is improved to increase the gross national product of the Six as a whole.

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- Peacock, A.T. and J. Wiseman, *The Growth of Public Expenditures in United Kingdom*, NBER No. 72; General Series (Princeton: Princeton University Press, 1961), pp. 3-9.
- Buchanon, J.M. and Marilyn R. Flowers, *The Public Finances*, 4th ed. (Homewood, Illinois: Richard D. Irwin, Inc., 1975), pp. 37-43.
- Brown, C.V. and P.M. Jackson, *Public Sector Economics* (Oxford: M. Robertson, 1978).

[33] *The United Kingdom, Ireland and Danemark joined the EEC on January 22, 1972, Greece in 1984 and Spain and Portugal in 1985.*

This considerable harmonization of the fiscal systems and the identification of each state with the general economic aims as a whole suggests a particular interpretation of the economic union as being merely a preliminary to a political union [34].

Having determined the character and aims of the EEC, the examination of expenditure trends in member countries may be even more interesting in the sense that they may show the consistency of such an integration as well as constituting a sample to follow the development of government expenditures and the size of the public sector in general.

At the beginning of the period considered for this survey, it is noticed that the relative size of the public sector (its ratio to the GDP) ranges in all countries between 16 percent and 19 percent except for the United Kingdom and the Netherlands where this ratio is 22 percent. The ratio of government consumption expenditure to GDP is between 11 percent and 15 percent and the ratio of government investment expenditure between 2 percent and 5 percent except again for the Netherlands where it is 7 percent. The high ratio of public consumption expenditure to GDP in the United Kingdom (19%) and relatively higher ratio of public investment in the Netherlands (7%) account for the larger sizes of the public sectors in both countries. When government transfer expenditures are taken into the analysis, the size of the public sector increases in all countries and doubles in Belgium, France, Italy and Luxembourg.

[34] *Dosser, Douglas, "Economic Analysis of Tax Harmonization", Fiscal Harmonization in Common Markets, ed. Carl S. Shoup, Vol. I, (New York: Columbia University Press, 1967), p. 3.*

TABLE 3.2.1 - BELGIUM
 GDP, Government Expenditures at Current
 Prices and Size of the Public Sector,
 1960-1980*

billions of Belgian francs	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	506.2	72.0	10.9	82.9	87.6	170.5	0.16	0.34
1961	533.7	73.3	12.5	85.8	91.3	177.1	0.16	0.33
1962	571.1	80.8	14.8	95.6	98.6	194.2	0.17	0.34
1963	613.3	91.7	17.5	109.2	106.2	215.4	0.18	0.35
1964	687.0	98.9	23.1	122.0	114.5	236.5	0.18	0.34
1965	749.9	110.2	21.2	131.4	138.5	269.9	0.17	0.36
1966	799.9	120.7	25.5	146.2	153.6	299.8	0.18	0.37
1967	853.3	132.8	30.2	163.0	167.2	330.2	0.19	0.39
1968	904.4	144.5	35.4	179.9	192.2	372.1	0.20	0.41
1969	1010.7	160.7	37.5	198.2	213.5	411.7	0.20	0.41
1970	1132.7	175.3	39.4	214.7	247.9	462.6	0.19	0.41
1971	1242.7	202.0	49.7	251.7	274.8	526.5	0.20	0.42
1972	1403.4	232.4	54.9	287.3	314.5	601.7	0.20	0.43
1973	1601.2	264.3	51.4	315.7	373.8	689.6	0.20	0.43
1974	1875.2	314.3	56.1	370.4	446.0	816.4	0.20	0.43
1975	2079.6	388.4	66.0	454.4	563.7	1018.1	0.22	0.49
1976	2354.5	441.0	77.1	518.1	644.9	1163.0	0.22	0.50
1977	2548.7	491.5	80.3	571.8	742.3	1314.2	0.22	0.52
1978	2738.6	547.0	81.8	628.8	822.5	1451.3	0.23	0.53
1979	2928.5	591.0	91.0	681.9	917.1	1599.0	0.23	0.55
1980	3121.1	646.7	106.2	752.8	1030.3	1783.1	0.24	0.57

* For sources and explanations see Appendix.

TABLE 3.2.2 - DENMARK
 GDP, Government Expenditures at Current
 Prices and Size of the Public Sector,
 1960-1980*

Million Kroner	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	36204	5202	1334	6536	3598	10134	0.18	0.28
1961	40515	6255	1616	7871	4390	12261	0.19	0.30
1962	45283	7402	1853	9255	5006	14261	0.20	0.31
1963	47710	8010	1934	9944	5569	15513	0.21	0.32
1964	54503	9215	2359	11574	6003	17577	0.21	0.32
1965	60988	10836	2886	13722	7051	20773	0.22	0.34
1966	66364	12481	3274	15755	8360	23115	0.23	0.36
1967	72527	14435	3981	18416	10130	28546	0.25	0.39
1968	79038	16659	4486	21145	12093	33238	0.27	0.42
1969	89356	18678	5410	24088	13854	37942	0.27	0.42
1970	101332	23675	6126	29801	17234	47035	0.27	0.46
1971	111874	27865	6186	34051	21207	55258	0.30	0.49
1972	128839	32075	6586	38661	24641	63302	0.30	0.49
1973**	149103	36808	6449	43257	28504	71761	0.29	0.48
1974	169653	45254	7328	52582	34454	87036	0.31	0.51
1975	189013	53182	8106	61288	40942	102230	0.32	0.54
1976	218084	60523	9043	69566	47983	117549	0.32	0.54
1977	240110	67124	10351	77475	57714	135189	0.32	0.56
1978	265111	76407	11645	88052	68263	156315	0.33	0.59
1979	291199	87163	13612	100775	82696	183471	0.35	0.63
1980	316873	100432	12883	113315	95360	208675	0.36	0.66

* For sources and explanations see Appendix.

** Denmark joined the EEC in 1972.

TABLE 3.2.3 - FRANCE

GDP, Government Expenditures at Current
Prices and Size of the Public Sector,
1960-1980*

Billions of Francs	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	257.3	38.88	6.96	45.84	47.27	93.11	0.18	0.36
1961	280.6	42.49	8.25	50.74	54.35	105.09	0.18	0.37
1962	313.6	47.59	10.18	57.77	65.24	123.01	0.18	0.39
1963	351.1	53.45	12.05	65.5	76.36	141.86	0.19	0.40
1964	387.6	58.33	14.33	73.21	84.78	157.99	0.19	0.41
1965	420.0	61.72	15.94	77.66	93.85	171.51	0.18	0.41
1966	453.5	65.77	17.61	83.88	102.46	185.84	0.18	0.41
1967	492.16	70.70	19.97	90.67	113.45	204.12	0.18	0.41
1968	546.7	79.54	21.51	101.05	129.39	230.44	0.18	0.42
1969	632.8	89.35	24.61	113.96	145.99	259.95	0.18	0.41
1970	678.9	105.1	28.2	133.3	159.9	293.2	0.20	0.43
1971	758.4	117.3	30.0	147.3	174.7	322.0	0.19	0.42
1972	852.4	129.1	31.9	161.0	198.3	359.3	0.19	0.42
1973	971.5	146.7	35.6	182.3	231.0	413.3	0.19	0.42
1974	1118.6	173.9	42.0	215.9	274.2	490.1	0.19	0.44
1975	1276.2	209.1	51.8	260.9	351.9	612.8	0.20	0.48
1976	1470.2	245.0	57.0	302.0	411.8	713.8	0.20	0.48
1977	1664.7	277.7	57.8	335.5	479.3	814.8	0.20	0.50
1978	1881.3	320.3	60.5	380.8	566.7	947.5	0.20	0.50
1979	2129.4	362.3	68.3	430.6	653.5	1084.1	0.20	0.51
1980	2401.9	421.1	79.0	500.1	753.5	1253.6	0.21	0.52

* For sources and explanations see Appendix.

TABLE 3.2.4 - GERMANY, Fed. Rep. of
GDP, Government Expenditures at Current
Prices and Size of the Public Sector,
1960-1980*

Billions of DM	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾ **	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	261.68	41.12	9.49	50.61	43.23	92.86	0.19	0.35
1961	288.12	46.39	11.23	57.62	45.9	103.52	0.20	0.36
1962	311.74	53.47	14.02	67.49	50.33	117.82	0.22	0.38
1963	333.72	59.55	16.26	75.81	54.25	130.06	0.23	0.39
1964	366.66	62.24	19.51	81.75	59.86	141.61	0.22	0.39
1965	403.08	70.03	20.19	90.22	68.19	158.41	0.22	0.39
1966	429.17	76.49	21.02	97.51	74.22	171.73	0.23	0.40
1967	431.15	81.14	18.43	99.57	81.16	181.18	0.23	0.42
1968	474.8	84.34	20.60	104.94	87.21	192.15	0.22	0.40
1969	523.35	95.11	23.30	118.41	93.87	212.28	0.23	0.41
1970	601.21	108.11	29.28	137.38	106.39	243.77	0.23	0.40
1971	668.4	129.24	31.71	160.95	118.26	279.21	0.24	0.42
1972	730.61	144.03	32.08	176.11	136.97	313.08	0.24	0.43
1973	815.16	166.7	33.2	199.9	155.97	355.87	0.24	0.44
1974	879.85	194.02	38.1	232.12	176.64	408.76	0.26	0.46
1975	922.71	215.29	37.96	253.25	214.3	467.55	0.27	0.51
1976	1001.28	227.19	37.84	265.03	232.85	497.88	0.26	0.50
1977	1070.68	239.38	37.45	276.83	254.7	531.53	0.26	0.50
1978	1146.4	257.13	41.63	298.76	273.72	572.48	0.26	0.50
1979	1238.94	278.58	48.38	326.96	291.77	618.73	0.26	0.50
1980	1322.64	303.52	55.45	358.97	309.37	668.34	0.27	0.50

* For sources and explanations see Appendix.

** Gross Capital Formation, for years 1960-1969 (Net purchases of land and used capital goods are also included)

TABLE 3.2.5 - IRELAND
GDP, Government Expenditures at Current
Prices and Size of the Public Sector,
1960-1980*

Millions of Sterling pounds	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾ GI**	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	558.7	77.9	18.1	96.0	79.1	175.1	0.17	0.31
1961	606.2	83.4	22.1	105.5	93.7	199.2	0.17	0.33
1962	657.6	91.2	25.9	117.1	96.3	213.4	0.18	0.32
1963	702.3	99.2	30.5	129.7	105.3	235.0	0.18	0.33
1964	794.1	118.6	38.5	157.1	121.7	278.7	0.20	0.35
1965	844.8	126.2	43.8	170.0	137.3	307.3	0.20	0.36
1966	881.9	135.7	42.4	178.1	154.7	332.8	0.20	0.38
1967	964.5	145.0	48.4	193.4	177.7	371.1	0.20	0.38
1968	1080.9	164.9	54.1	219.0	204.6	423.6	0.20	0.39
1969	1205.0	192.0	62.9	254.9	247.2	502.1	0.21	0.42
Millions of Irish Pounds 1970	1384.6	237.3	60.2	297.5	316.2	613.7	0.21	0.44
1971	1581.2	282.5	71.4	353.9	361.5	715.4	0.22	0.45
1972	1917.8	343.0	81.1	424.1	417.7	841.8	0.22	0.44
1973***	2325.1	422.5	108.0	530.5	500.9	1031.4	0.23	0.44
1974	2610.4	512.8	145.9	658.7	601.2	1259.9	0.25	0.48
1975	3337.9	710.6	164.8	875.4	858.9	1734.3	0.26	0.52
1976	3981.1	841.4	165.7	1007.1	1084.5	2091.6	0.25	0.52
1977	4954.7	988.1	207.7	1195.8	1255.6	2451.4	0.24	0.49
1978	5992.2	1179.8	252.7	1432.5	1502.0	2934.5	0.24	0.49
1979	6907.0	1440.0	328.4	1768.4	1820.5	3588.9	0.26	0.52
1980	7813.0	1837.0	409.3	2246.3	2338.8	4585.1	0.29	0.59

* For sources and explanations see Appendix.

** Gross Capital Formation, for years 1960-1969.

** Ireland joined the EEC in 1972.

TABLE 3.2.6 - ITALY
 GDP, Government Expenditures at Current
 Prices and Size of the Public Sector,
 1960-1980*

Billions of Italian Lire	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	19286	2623	682	3305	3140	6445	0.17	0.33
1961	21418	2872	710	3582	3282	6894	0.17	0.32
1962	24136	3349	757	4106	3867	7973	0.17	0.33
1963	27679	4080	838	4918	4517	9435	0.18	0.31
1964	30343	4594	978	5572	4985	10557	0.18	0.35
1965	32593	5176	939	6115	6097	12212	0.19	0.37
1966	35333	5521	1014	6535	6765	13300	0.18	0.38
1967	38739	5861	987	6848	7499	14347	0.18	0.37
1968	41940	6382	1189	7571	8654	16225	0.18	0.42
1969	46362	6910	1213	8123	9648	17771	0.17	0.38
1970	56791	8664	2019	10683	10329	21021	0.19	0.37
1971	62187	10608	2078	12686	12064	24750	0.20	0.40
1972	68983	12077	2361	14438	14217	28655	0.21	0.41
1973	82539	13907	2562	16469	16964	33433	0.20	0.40
1974	101582	16714	3458	20172	21373	41545	0.20	0.41
1975	117386	19362	4466	23828	28666	52494	0.20	0.45
1976	145120	23133	5380	28513	36440	64953	0.20	0.45
1977	174873	28991	6347	35338	44285	79623	0.20	0.45
1978	205271	32557	6901	39458	57478	96936	0.19	0.47
1979	251235	43360	8326	51686	67391	119077	0.20	0.47
1980	311067	54440	11509	65949	84161	150110	0.21	0.48

* For sources and explanations see Appendix.

TABLE 3.2.7 - LUXEMBOURG
 GDP, Government Expenditures at Current
 Prices and Size of the Public Sector,
 1960-1980*

Millions of Luxembourg Francs	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾ **	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	23185	2521	1229	3750	3806	7556	0.16	0.32
1961	23760	2553	1160	3713	3987	7700	0.16	0.32
1962	24127	2927	1460	4387	4135	8522	0.18	0.35
1963	25702	3484	1271	4755	4395	9150	0.18	0.36
1964	29884	3521	1482	5003	5349	10352	0.17	0.35
1965	31098	3666	1308	4974	6177	11151	0.16	0.36
1966	32472	4013	1445	5458	6777	12235	0.17	0.38
1967	33161	4245	1489	5734	7595	13329	0.18	0.40
1968	36221	4625	1810	6435	8022	14457	0.18	0.40
1969	41235	4857	1733	6590	8464	15054	0.16	0.36
1970	49551	5769	1788	7557	10080	17637	0.15	0.36
1971	50699	6552	2255	8808	11212	20019	0.17	0.39
1972	56041	7414	2704	10119	12750	22869	0.18	0.41
1973	69142	8645	3603	12248	14525	26773	0.18	0.39
1974	85562	10712	4359	15071	17204	32275	0.18	0.38
1975	77615	12930	5223	18153	22714	40867	0.23	0.53
1976	90744	14678	5649	20327	27446	47773	0.22	0.53
1977	92061	16261	5711	21972	30521	52493	0.24	0.57
1978	101457	17525	5931	23456	32381	55837	0.23	0.55
1979	113192	19764	6950	26714	35315	62029	0.24	0.55
1980	121683	22242	9194	31336	39303	70639	0.26	0.58

* For sources and explanations see Appendix.

** Gross Capital Formation, for years 1960-1969.

TABLE 3.2.8 - NETHERLANDS
 GDP, Government Expenditures at Current
 Prices and Size of the Public Sector,
 1960-1980*

Millions of Guilders	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	38680	5705	2770	8475	6101	14576	0.22	0.38
1961	40655	6254	2857	9111	6476	15587	0.22	0.38
1962	43752	7014	3104	10118	7025	17143	0.23	0.39
1963	47443	8051	3523	11574	8431	20005	0.24	0.42
1964	55847	9560	4513	14073	9902	23975	0.25	0.43
1965	62301	10649	5066	15715	11828	27543	0.25	0.44
1966	67704	11887	5787	17674	13887	31561	0.26	0.47
1967	74230	13330	6497	19827	16136	35963	0.27	0.48
1968	81797	14410	7363	21773	18501	40274	0.27	0.50
1969	92150	16070	7570	23640	21770	45410	0.26	0.50
1970	103020	18706	5468	24174	26454	50628	0.23	0.49
1971	115860	21670	6390	28060	31080	59140	0.24	0.51
1972	130960	24460	6380	30840	36910	67750	0.23	0.52
1973	151090	27450	6460	33910	44220	78130	0.22	0.52
1974	172330	32440	7210	39650	55390	95040	0.23	0.55
1975	189210	38190	8520	46710	64530	111240	0.25	0.59
1976	217400	43330	9340	51850	77360	129210	0.24	0.59
1977	248200	47850	9280	57130	86190	143320	0.23	0.58
1978	267710	52610	9640	62250	96190	158440	0.23	0.59
1979	285280	56970	9850	66820	105430	173250	0.23	0.61
1980	301200	60360	11020	71380	116140	187520	0.24	0.62

* For sources and explanations see Appendix.

TABLE 3.2.9 - UNITED KINGDOM
 GDP, Government Expenditures at Current
 Prices and Size of the Public Sector,
 1960-1980*

Millions of Pound Sterlings	GDP ⁽¹⁾	GC ⁽²⁾	GI ⁽³⁾ **	GE ⁽⁴⁾	GTE ⁽⁵⁾	GET ⁽⁶⁾	PS ⁽⁷⁾	PST ⁽⁸⁾
1960	22515	4184	843	5027	3081	8108	0.22	0.36
1961	24079	4512	926	5438	3406	8844	0.22	0.37
1962	25144	4833	1041	5874	3604	9478	0.23	0.38
1963	26697	5091	1118	6209	3897	10106	0.23	0.38
1964	28880	5412	1410	6822	4029	10851	0.24	0.36
1965	30857	5932	1506	7438	4524	11962	0.24	0.39
1966	32588	6447	1703	8150	4869	13019	0.25	0.40
1967	34417	7141	1987	9128	5587	14715	0.26	0.43
1968	36475	7580	2203	9783	6398	16172	0.27	0.44
1969	38398	7952	2252	10204	6726	16930	0.27	0.44
1970	43657	9002	2431	11433	8219	19652	0.26	0.45
1971	49584	10264	2562	12826	8905	21731	0.26	0.44
1972	55440	11691	2732	14423	10518	24941	0.26	0.45
1973***	64464	13397	3661	17058	12195	29253	0.26	0.45
1974	74809	16637	4376	21013	16294	37207	0.28	0.50
1975	94648	23062	4984	28046	20548	48594	0.30	0.51
1976	111817	26809	5410	32219	24158	56377	0.29	0.50
1977	127203	29275	4805	34080	32561	66641	0.27	0.52
1978	145571	33019	4606	37625	33938	71563	0.26	0.49
1979	166734	38296	5145	43441	40255	83696	0.26	0.50
1980	193744	48406	5528	53934	48218	102152	0.28	0.53

* For sources and explanations see Appendix.

** Gross Capital Formation, for years 1960-1969. Includes expenditure on land and existing buildings.

*** United Kingdom joined the EEC in 1972.

At the beginning of 1970's, size of the public sector (government expenditures excluding transfers) in all countries is larger than in 1960s, with a 1 percent drop in Luxembourg only. The ratio of government consumption expenditures to GDP is higher in all countries (except for France where there is no change). The ratio of public investment to GDP are slightly increased (there is a slight drop in Luxembourg and the Netherlands) and the range is narrower. With transfer expenditures taken into account, tables show that the relative importance of this kind of expenditure has increased as the size of the public sector including transfers doubles the size of the public sector excluding them in more countries than in 1960 (Belgium, France, Ireland, Italy, Luxembourg and the Netherlands).

The year 1980 greets again an increase in the public sector ratios now ranging from 21 percent to 36 percent. This increase is greatly due to increases in the public consumption expenditure ratios as the ratios of government overhead investments either drop or stays the same in most countries (slightly increase in Ireland and Italy and reaches 7 percent in Luxembourg). It is also striking that the overhead investment ratios are now concentrating around 3 percent and 4 percent. On the other hand, sizes of the public sectors including transfer expenditures are again increased and bear the same characteristics as in 1970 data.

These statistics demonstrate interesting facts: During the considered period the size of the public sector kept growing in all countries. Government consumption expenditures grew also relative to GDP but the share of public overhead investments decreased in most countries. Again in most countries, government transfer expenditures exceeded

government consumption and investment expenditures and doubled the size of the government sector when entering into the calculations.

All these developments consequently show two facts. First, they prove that along economic development the size of the public sector grows noticeably: As GDP rises the share of overhead investments either gets smaller or stays constant while government consumption expenditures grow faster than the gross domestic product due to various reasons such as the growing complexity and variety of government services, and the development of new forms of consumption with the rise in the standards of living, which might be decided to be partly financed by the governments. On the other hand, the changing criteria of poverty and distress which determines who is to be helped by the government and how much and the tolerable level of existence to be provided by the government for those in need exert an effective pressure on the government transfer expenditures. All put together, the growing concern attributed to public expenditures show us actual effects on the expenditure trends of the nations.

Secondly, the fact that the ratios of public expenditures to the gross domestic product, calculated for the EEC countries, are scattered within a narrow interval show the consistency of this Western European Integration. The Treaty of Rome establishing the Common Market very clearly prohibits, between member states, custom duties on imports and exports, import and export quotas, and all measures with equivalent effects (articles 9, 30, 34). In addition to these measures seen as necessary to arrive at financial systems where the static marginal conditions of welfare theory are not disturbed, were added measures for

the harmonization of the government expenditures. However, problems of harmonization of government expenditures are mentioned expressly only in connection with subsidies (article 92) and social security payments (article 51) [35]. The interesting conclusion which can be drawn from the tables is that Denmark, Ireland and the United Kingdom which were not members of the EEC until 1973, had all along the period, ratios of public expenditures to gross domestic product, very close to other member countries' ratios and the relative dominance of government consumption and investment expenditures to transfer expenditures in Denmark and the United Kingdom were kept the same after they became members. This picture suggests that the EEC type political and economic integrations may not be realized by simple economic prohibitions and rules but a certain harmonization of economic characters and aims is needed right from the start for a perfect union.

[35] Andel, Norbert, *Problems of Government Expenditure Harmonization in a Common Market*, *Fiscal Harmonization in Common Markets*, ed. Carl S. Shoup, Vol. I, (New York: Columbia University Press, 1967).

IV. CONCLUSION

The mixed economic system of modern capitalism includes a sizeable and vitally important sphere of public economy along with the market sector. The governing concern of the public finance being the causes, size and destination of the public expenditures, the growth of government expenditures are of great importance to the economic life of nations. However, the realization of such an importance took along time and the concept of the role of government evolved a great deal since the merchantalism of the seventeenth century to the contemporary economic theory.

The causes and development of public expenditure growth received much of an attention and different theories and hypotheses have been developed; To the prescriptive theories of welfare economics were later added theories of somewhat explanatory nature such as those of Wagner's and of Peacock and Wiseman's.

This study recognizes the need of analyzing the historical evolution of the concept of public sector and the hypotheses attempting to explain the actual trends of public expenditures. Together with a section on theoretical and conceptual issues, an empirical analysis of the public expenditure trends was thought to be of equal importance.

The analyses of the EEC countries, for the period 1960-1980 helped to draw interesting conclusions. On the other hand, the preparation of individual country tables are believed to contribute a great deal to the analysis of the public sector in general as none of the international statistical sources present explicit data on the size of the government sector.

The empirical results show that there is a striking growth in the size of the government sector in all of the EEC members. Along with economic development, public consumption expenditures generally grow faster than the gross national product, while the overhead investment expenditures do not follow this relative growth as their percentage shares in the gross domestic product rise only in three countries and either drops or stays the same in all others. The government transfer expenditures follow an upward trend and their inclusion into the computation of the size of the public sector doubles these percentage sizes, in nearly all countries.

These results also give important hints about the internal consistency of the Common Market: The bounds keeping the members together are stronger than provided only by Community's regulatory economic measures and there is a rationale behind this basically political integration as to their more or less close economic developments. This conclusion naturally brings to our mind questions like what will happen to the economic system of the EEC and of the member countries with the participation of Spain, Portugal, Greece and may be later of Turkey, how will these countries manage to keep in pace with the more developed nations of the West-Europe and what are the possible limits

to the growth of the public expenditures despite of the social pressures. These very problems are kept out of the scope of this study and are cited here as they might suggest further studies on the issue.

APPENDIX

This appendix explains the statistical sources and the definitions used for various statistical series used for this study.

The data on Gross Domestic Product and Government Expenditures have been extracted from the OECD - individual country statistics^(I) for the period 1960-1969, and from United Nations Statistical Yearbooks^(II) for the period 1970-1980. Both sources have been consulted for years other than indicated, when needed.

For some countries, Gross Domestic Product at factor cost has not been found and the figures have been obtained by subtracting Indirect taxes from and by adding subsidies to the available Gross Domestic Product at market prices figures.

For the Government Investment Expenditure series, Gross Fixed Capital Formation by General Government figures have been used unless otherwise indicated.

(I) *National Accounts of OECD countries, 1960-1970, OECD publications, France, 1972.*

(II) *Yearbook of National Accounts Statistics, 1975, 1977 and 1981 issues, United Nations Publications, Vol. I; Individual Country data.*

The explanatory notes on statistical tables are given below:

1. Gross Domestic Product at factor cost
2. Government Consumption Expenditure
3. Government Investment Expenditure
4. Total Government Expenditures (Government Consumption Expenditure + Government Investment Expenditure)
5. Government Transfer Expenditure
6. Total Government Expenditures including Transfer Expenditure
7. Relative size of the Public Sector (= GE/GDP)
8. Relative size of the Public Sector (= GET/GDP)

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