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Article

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EARLY AND LATE REFORMERS: LONG-TERM TRENDS OF PUBLIC EXPENDITURE IN 21 OECD COUNTRIES

RIGMAR OSTERKAMP*

It is generally believed that lacking economic growth might be regained by limiting the role of the state, i.e. by reducing public expenditure. Such a strategic re-orientation of economic policy is all the more necessary if the business cycle dampens tax revenues and if other routes of escape from a growth crisis, like higher budget deficits, are blocked, as is the case in some countries, e.g. Germany, who have committed themselves to following the rules of the Maastricht treaty.

Unfortunately, it is exactly this necessary reform of public expenditure which is obviously the most difficult to achieve in the political process. It might, thus, be helpful to ask whether and when a significant reduction of public spending was achieved in the past and by which countries, taking into account a longer period (four decades). We look at the long-term trends of public expenditures as a share of GDP. The question of the causes and the effects of such a re-orientation of public spending is not tackled here.¹

The public expenditure data for 21 countries (15 EU countries plus Norway, Switzerland, Australia, Canada, USA, Japan) as a share of GDP are considered. We use long-term time series from 1960 to 2001 (OECD data).

The definition of public expenditures differs between countries. One difference concerns subsidies which are treated as expenditures in some countries and as foregone revenues in others. The size of the public deficit remains,

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¹ For the causes see e.g. De Haan, Sturm and Sikken 1996; De Haan and Sturm 1994; Roubini and Sachs 1989.

the total of public expenditures, however, not. Nevertheless, if the treatment of subsidies (and of other items) is not changed over time the comparison of long-term trends of public expenditures should not be misleading.

For an easier detection of underlying tendencies the annual figures have been condensed to (non-moving) three-years averages, starting with the period from 1960 to 1962. In accordance with the literature (summarised e.g. by De Haan, Sturm and Sikken 1996) we find that many countries initially exhibit long-run rising trends in the public expenditure share of GDP and later decreasing shares. However, the reversal of the trend can be described to have happened not only “at various moments” – as De Haan, Sturm and Sikken (1996, p. 55) suggest – but mainly at two moments, namely either in the beginning of the 1980s or in the beginning of the 1990s.

It is relatively easy to form two groups of countries based on the period of trend reversal. The first group of countries might be named the “early reformers”, the latter the “late reformers”. Figures 1 and 2 show the development of the public expenditure share for the two country groups.

USA and Japan do not fit easily into the group of early reformers. But looking additionally at public consumption as a share of GDP (not shown) they are clearly early reformers because this variable exhibits for both countries a falling trend even from the 1960s onwards. Also Sweden is partly an outlier, because its share of total public expenditure – after the fall in the early 1980s – rises for two

Figure 1

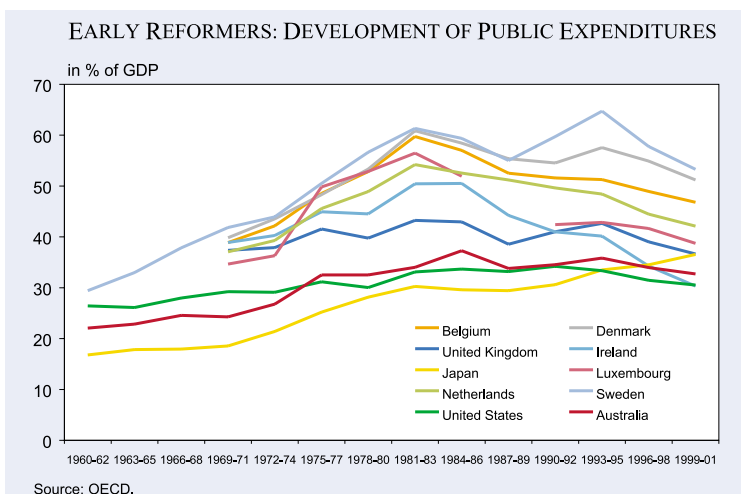
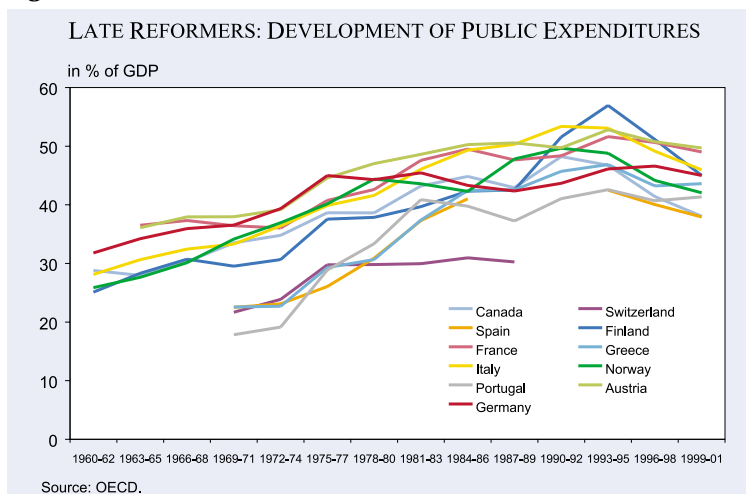


Figure 2



three-years periods before it decreases again. But also Sweden has, nevertheless, been put into the group of early reformers due to the development of public consumption (likewise not shown) which is reversed in the beginning of the 1980s.

While the grouping can be made without much coercion, a common denominator for the two groups is not easily apparent. This question is not pursued further here as more detailed country studies are necessary. With respect to the period of the first trend reversal – in the early 1980s – it may be noted, however, that at around this time Margaret Thatcher and Ronald Reagan started their economic reforms.²

To conclude:

- There are long-term tendencies in the behaviour of public expenditure as a share of GDP in 15 EU and 6 important non-EU countries.
- These long-term trends show a reversal from rising to falling shares of GDP.
- The reversals occurred primarily at two periods, namely at the beginning of the 1980s and at the beginning of the 1990s.
- Thus, the sample countries can easily be grouped according to this criterion and labelled “early reformers” and “late reformers”, respectively.
- The early and late reformers perspective might also be used to ask why trend reversals have occurred at all, why they have occurred at different – and not at the same – periods, why there have been two and not many periods of rever-

sal, and what have been the effects of these trend reversals on economic growth.

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² Margaret Thatcher, British Prime Minister, 1979–1990; Ronald Reagan, US President, 1981–1989.