

# *Economic Forces in American History*

## **The Rise of Big Government**

John Wallis, University of Maryland

Opening Questions:

- What do we mean by Big Government?
- When did government get big, and which is the most important level of government in the United States?
- What does government spend its money on?

Just how big has government gotten in the twentieth century?

Government Table 3 gives government revenues as a share of GNP for a number of years from 1840 to 1992. Government has clearly grown relative to the economy. In the middle of the 19<sup>th</sup> century government revenues were about 5% of GNP, today they are almost 40%.

Has government been growing out of control?

Government Table 2 shows the size of government as a percentage of GNP and annual growth rates between dates in the table. Government growth was much faster early in the century than it has been later in the century. (It depends in part whether we count 1952 as early or late, but the picture is still the same.)

Why did government get bigger?

Today almost two thirds of all government expenditures are accounted for by 5 items:

defense  
education  
welfare  
interest  
social security

As Government Table 4 and the figures show, it is social security that has been growing fastest as a share of government expenditures, from zero to 16 percent.

But the bottom panel of the table, which shows expenditures on these functions as a percentage of GNP shows that all of the functions contributed to the growth of government and no single function stands out.

The bottom row of the table was calculated by taking the change in Government as a percentage of GNP between 1902 and 1990 (it grew by 29% from 8% to 37%). The growth in each expenditure function as a share of GNP was also calculated, and then the share of total government growth as a percentage of GNP that can be explained by each category was calculated.

The results may be surprising. Welfare contributes the least to the growth in government, and Social Security the most (you may want to quibble about the distinction). Growth in education accounts for 15%, defense spending 17% and social security 20%.

In other words, there is no dominant expenditure function that explains the growth of big government.

Government Table 1  
Government Fiscal Measures  
1902-1992

Total Expenditures Share By Level YEAR	Total Expenditures			Total Revenues and Expenditures As a Share of GNPS&L		Federal Grants as a Share of Revenues
	Federal	State	Local	Rev	Expend	
1902	34.16%	8.22%	57.62%	7.84%	7.66%	0.7%
1913	29.89%	9.27%	60.84%	7.53%	8.09%	0.6%
1922	39.39%	11.69%	48.92%	12.58%	12.52%	2.1%
1927	30.57%	12.98%	56.44%	12.85%	11.78%	1.5%
1934	38.69%	16.83%	44.48%	17.36%	19.56%	13.7%
1940	44.91%	17.51%	37.58%	17.86%	20.36%	8.7%
1946	82.43%	6.24%	11.33%	29.51%	38.22%	5.7%
1952	69.10%	10.80%	20.10%	28.51%	28.40%	9.0%
1957	62.11%	13.48%	24.41%	28.64%	27.82%	9.1%
1962	59.98%	14.50%	25.52%	29.19%	30.56%	12.8%
1967	58.76%	15.64%	25.59%	30.81%	31.44%	16.8%
1972	52.41%	18.42%	29.17%	31.49%	33.09%	19.7%
1977	53.04%	18.95%	28.01%	32.82%	34.65%	24.6%
1982	57.45%	17.42%	25.13%	36.11%	38.82%	19.0%
1987	59.33%	16.50%	24.17%	36.97%	38.34%	15.8%
1992	58.33%	17.99%	23.68%	33.94%	38.42%	21.4%

Government Table 2  
All Government Expenditures as a share of GNP  
and growth rate of Government

Growth rate between

	Share of GNP	One Period	Two Periods
	(1)	(2)	(3)
1840	5.0%		
1902	7.8%	0.729%	
1913	7.5%	-0.4%	0.562%
1922	12.6%	5.9%	2.4%
1927	12.8%	0.4%	3.9%
1934	17.4%	4.4%	2.7%
1940	17.9%	0.5%	2.6%
1946	29.5%	8.7%	4.5%
1952	28.5%	-0.6%	4.0%
1957	28.6%	0.1%	-0.3%
1962	29.2%	0.4%	0.2%
1967	30.8%	1.1%	0.7%
1972	31.5%	0.4%	0.8%
1977	32.8%	0.8%	0.6%
1982	36.1%	1.9%	1.4%
1987	37.0%	0.5%	1.2%
1992	37.5%	0.3%	0.4%
1902 to 1940		2.2%	
1902 to 1952		2.6%	
1940 to 1992		1.4%	
1952 to 1992		0.685%	

Government Table 3  
Size of Government Expenditures in Dollars and  
as a share of GNP, 1800 to 1902

Size of Government in Dollars

	National	State	Local	Total	Percent of GNP
1800	1.96	0.42			
1810	1.80	0.36			
1820	2.52	0.56			
1830	2.07	0.54			
1840	1.50	0.88	1.23	3.60	4.0%
1850	1.93	0.99	1.23	4.14	4.2%
1860	3.32	1.72	2.17	7.20	5.4%
1870	9.82	2.34	5.48	17.64	8.4%
1880	6.39	1.70	4.98	13.07	5.7%
1890	5.74	1.84	5.96	13.55	6.4%
1900	6.42	2.43	8.83	17.68	7.2%

As Share of GNP

1902	3.0%	0.8%	4.0%	7.8%
1913	2.4%	0.9%	4.2%	7.5%
1922	5.8%	1.7%	5.2%	12.6%
1927	4.7%	2.1%	6.0%	12.8%
1934	6.0%	3.8%	7.6%	17.4%
1940	7.0%	5.0%	5.8%	17.9%
1946	22.3%	3.7%	3.6%	29.5%
1952	20.4%	4.1%	4.0%	28.5%
1957	19.3%	4.6%	4.7%	28.6%
1962	18.5%	5.2%	5.5%	29.2%
1967	19.7%	5.7%	5.4%	30.8%
1972	18.4%	6.9%	6.2%	31.5%
1977	19.2%	7.6%	6.0%	32.8%
1982	21.6%	8.2%	6.2%	36.1%
1987	21.0%	9.1%	6.9%	37.0%
1992	20.8%	9.3%	7.3%	37.5%

Government Table 4  
Expenditure Shares by Major Categories, All governments

	defense	education	welfare	interest	SSI	Total	
1902	0.10	0.16	0.02	0.06	0.00	0.34	
1913	0.08	0.18	0.02	0.05	0.00	0.33	
1920s	0.07	0.19	0.01	0.13	0.00	0.41	
1930s	0.05	0.16	0.06	0.10	0.00	0.37	
1940s	0.32	0.11	0.05	0.07	0.00	0.54	
1950s	0.39	0.11	0.03	0.05	0.04	0.63	
1960s	0.29	0.14	0.03	0.05	0.08	0.61	
1970s	0.18	0.17	0.07	0.06	0.13	0.61	
1980s	0.16	0.15	0.07	0.08	0.16	0.61	
	As a share of GNP						All Govt % GNP
	defense	education	welfare	interest	SSI	Total	
1902	0.008	0.012	0.002	0.005	0.000	0.026	0.08
1913	0.006	0.014	0.001	0.004	0.000	0.025	0.08
1920s	0.009	0.023	0.002	0.016	0.000	0.050	0.12
1930s	0.010	0.029	0.011	0.018	0.000	0.067	0.18
1940s	0.095	0.032	0.014	0.021	0.001	0.162	0.30
1950s	0.109	0.032	0.008	0.015	0.011	0.175	0.28
1960s	0.088	0.043	0.010	0.016	0.025	0.183	0.30
1970s	0.059	0.054	0.021	0.020	0.043	0.197	0.32
1980s	0.057	0.057	0.026	0.028	0.058	0.226	0.37
Explains	0.170	0.152	0.081	0.082	0.197	0.682	0.292