Public Expenditure

Wagner's Law

Wagner's Law

- Adolph Wagner(1885-1911) was the German economist whose theory is on historical facts, primarily of Germany. According to Wagner, there are inherent tendencies for the activities of different layers of the government (such as central & state governments) to increase both intensively and extensively.
- There is a functional relationship between the growth of an economy and government activities with the result that the government sector grows.

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- From the original version of this theory, it is not clear that Wagner was referring to an increase in which of the following expenditure of the government:

a. Absolute level of Public expenditure, or
b. The ratio of government expenditure to GNP, or
c. Proportion of public sector in the total economy.

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- Musgrave believes that Wagner was are referring to (c) i.e., proportion of public sector in the total economy.
- F.S. Nitti on the basis of empirical evidence concluded that it was equally applicable to several other governments which differed widely form each other. All kinds of governments, irrespective of their levels (central, state), intension, (peaceful or warlike), and size etc. had exhibited the same tendency of increasing public expenditure.

Wagner's Law

- Number of reasons can be enumerated for the increasing activities of state activities.

i. Increase in defence expenditure.

ii. Increase in area of state activities from internal and external security to welfare and regulation of economic activities.

iii. Increase in investment for public goods.

iv. Increase in population which requires more of schools, hospitals etc.

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v. With the increasing urbanization, the state has to spend much larger per capita expenditure on civic amenities, traffic, roads and so.

vi. Inflation

vii. Changing size and nature of public service requiring more specialized service providers, better technology etc.

viii. Protecting the economy from failures of market mechanism – like anti-cyclical and other regulatory measures.

Wagner's Law

- Wager's law was based upon historical facts. It does not reveal the inner compulsions under which a government has to increase its activities and public expenditure as time passes.
- Wagner's was emphasizing long term trend rather than short-term changes in public expenditure. Though in the short-term, financial difficulties could come in its way. But in the long run, the desire for development of a progressive people will always overcome these financial difficulties. Since wager's law is based on historical facts, the precise quantitative relationship between the extent of increase in public expenditure at and time by it was not fixed in any logical or functional manner. His contention that Public expenditure had been increasing overtime couldnot be used to predict its rate of increase in future. But that law states that in future the state expenditure would increase at a rate slower than the national income, though, factually speaking, it had increased at a faster rate.