

Wagner's Law of Increasing State Activities

The German Political Economist, Adolf Wagner (1835-1917) propounded the law of Increasing State Activities.

According to Wagner as an economy develops overtime, the activities and functions of the state (government) increase. He illustrates this with examples of Great Britain, U.S.A, France, Germany and Japan. His law focuses on the following points:

(1) In progressive societies, the activities of the central and local government increase at regular basis.

(2) The increase in government activities is both extensive and intensive.

(3) The govt. undertake new functions in interest of public.

of the Society and performed both old and new functions more efficiently.

(4) The expansion and externalization of government functions and activities lead to increase in public expenditure.

(5) Though Wagner's Law is based on the German economy, it is applicable for both developed and developing countries.

- Public Expenditure ~~increases~~ increases because of

~~(a)~~ Expansion of Traditional Functions:

includes defence, administration of justice, maintenance of law and order etc.

(b) Coverage of New Functions:

- New welfare programmes to provide social security to the people, expenditure on education, public health, old age pension etc.

(c) Expanding sphere of public goods:

- Irrigation, flood control projects, construction, maintenance of public works

Factors affecting demand side of public expenditure

- Urbanization and industrialization

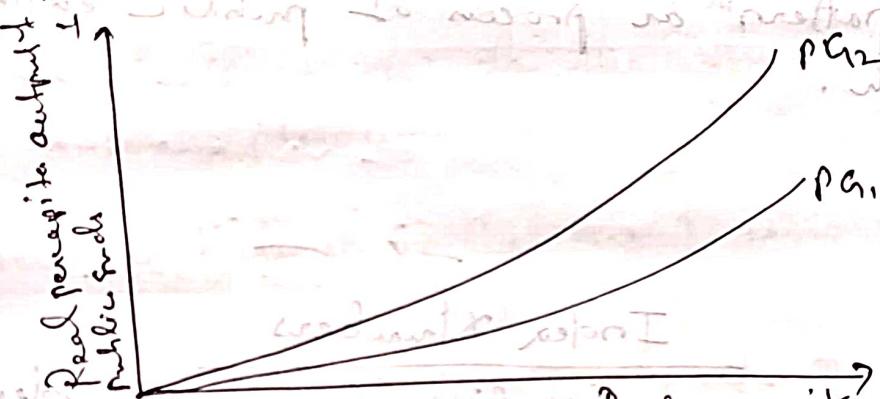
- Structure and composition of the population

- Specialization of labour and centralization of administration in private and public activities

- Factors affecting the supply side of public expenditure
- changing scale of production of government activities.
 - Quality of production.
 - Intergovernmental grants.

Graphical Presentations of the Wagner Hypothesis:

The modern formulation of Wagner's law is that "as per capita income rises in industrializing nations, their public sector will grow in relative importance" (Beir, 1971, p. 2).



PG₁ - represents a circumstance in which the public sector maintains a constant proportion of the total economic production of the society over time.
PG₂ - represents a circumstance in which the public sector expands its share of total economic production over time.

If can be used as a reference point to the graphical presentation of Wagner hypothesis as depicted by the line PG₂.

All along the PG₂ the proportion of resources devoted to the output of public goods is expanding over time.

Criticisms

- (1) Wagner's hypothesis deals with inter-disciplinary phenomena, but it lacks interdisciplinary approach in its analytical framework.
- (2) The theory ignores the influence of war on governmental spending by not allowing analysis of war period.
- (3) It stresses a long term trend of public economic activity, which tend to overlook the significant "time patterns" or process of public expenditure growth.