

## [An interesting question indeed](#) [1]

Written by [Tim Worstall](#) [2] | Thursday 1 August 2013

Mark Thoma asks an [interesting question](#) [3]:

I have a question. Why should government spending as a percentage of GDP stay constant as GDP grows?

Sadly he rather spoils it by providing the wrong answer:

It seems that, as we grow wealthier as a society, we would want relatively more of the kinds of goods government provides, e.g. social insurance.

Nothing is a normal good in all income ranges, a normal good being one that we spend the same portion of our incomes on whatever those incomes might be. Everything is, at some point in the range of possible incomes, an inferior (we spend smaller portions of income as income rises) or superior good.

So, yes, it's entirely true, there is no good reason that government as a percentage of GDP stays static as GDP rises. The interesting follow on being whether we do indeed desire more of such social protection as incomes increase.

And I'd say that we've already gone over the hump from government being a superior good to it being an inferior one.

Imagine life 200 years ago. Yes, indeed, there was charitable provision for medical care, the invalids and the old: but as it turned out, what the people actually wanted was more than just that charity. The voters voted that they wanted government to provide at least more than had previously been done. Yes, we might argue about this but these definitions of superior etc goods are not about what ought to happen but about what people actually do. And people most certainly have voted to have more social insurance than we had when GDP per capita, in current money, was £2,000 a year or whatever.

However, does this hold true today? For we already have social insurance: pensions for the old, food for those unable to afford it, money for the unemployed, top ups to wages for the unskilled, a national health service, care for the orphans and so on and on and on. If GDP doubled, for example, would we be insisting on having twice the social insurance we currently do? I think not actually, I think that given we do indeed have that desired safety net I think that people would generally regard more government as an inferior good. Something we have less of as a portion of our incomes as incomes rise.

The initial question is interesting and the answer is that there is no reason why government should be a static portion of GDP. But I do indeed think that at our current levels of government and GDP that it has become an inferior good, something we'll spend a lower portion on as we get ever richer.

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