

Empirical evidence

mal country size.⁴² Note, for instance, that many of the VSC in the world and all of the prosperous ones are located in a relatively stable political environment.

Summarizing all arguments of this section and condensing them for the empirical examination in Section 3.2, we obtain three main theoretical predictions from our discussion:

Hypothesis 1: The evidence should show a negative relationship between country size and government size in line with Alesina and Wacziarg (1998) even in the nineties.⁴³

Hypothesis 2: The extent and significance of that relationship should have, nevertheless, declined substantially due to the deepening and widening of regional as well as global integration and a higher overall degree of trade openness over the last three decades.

Hypothesis 3: We should detect that the relationship of country size and public expenditure differs between groups of countries. Specifically, OECD members should only display an insignificant difference between larger countries and smaller ones with respect to their public expenditure because of trade openness and more or less peaceful adjacent countries. Geographically remote countries should show large differences with regard to relative government size, because they have fewer options to organize public good provision and, hence, the diseconomies of scale effect should be more severe.

3.2 Empirical evidence

Table 3.1 arranges 120 countries for which data of government consumption⁴⁴ in 1995 or 1996 are available in a matrix, grouped by quintiles, computed for government consumption and population. If there is

⁴² Some of these factors are controlled for in the regressions in Section 3.2.

⁴³ The data base of Alesina and Wacziarg (1998) ends in 1989. Some of their results are even based on data for the first half of the 80ies.

⁴⁴ The arguments for the choice of government consumption as a proxy for government size are laid out in Section 3.2.1.