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The Growth of Government, Trust in Government, and Evidence on Their Coevolution

- **As transfer payments increase trust in government decreases**
- **As regulatory activity increases trust in government decreases**
- **As lobbying activity increases trust in government decreases**
- **As lobbying increases and trust decreases, economic productivity decreases**

The growth in government in the United States and other parts of the world has been extensively researched. Much of this research aims to understand this expansion, but scholars in economics, political science, and legal studies are often divided regarding the role of government, and its growth, in economic life. Two contrasting models, the public interest and political economy views of government, present simple characterizations of this divide and have different implications for social well-being and economic production as a result of increases in government activity (Mueller 2004).

Another trend in the United States over the past 60 years that has gained attention is the decline of public trust in government (Pew Research Center 2010). This decline has caused great unease among many commentators, with the concern that trust is an important aspect of social capital and its weakening may detract from the efficacy of government, as well as ease of economic and social interactions. Social capital encompasses the implicit "rules" of a society that affect social governance in many ways and perhaps are just as important as written, legal rules.

This paper presents an empirical examination that relates these two phenomena, that is, the mutual evolution of the growth of government on one hand, and the decline in trust of government on the other. Additionally, our findings speak to whether the public interest or political economy model is a more compelling viewpoint from which to understand the coevolution of these trends. They also address whether the growth of government has tended to erode or enhance the trust aspect of social capital. As discussed below, the political economy model implies a long-run outcome where growth in government erodes trust in government, thus growth in the former is associated with a decline in the latter. The public interest model suggests a positive long-run relationship of trust and government growth. Though the raw correlations are indicative of the political economy model, our empirical work looks for robust, long-run associations in the data regarding the size of government, trust in government, and other variables. Because we use time-series data that may be non-stationary, caution must be taken in the interpretation of correlations, and we are careful to utilize the appropriate time series methods.

While our analysis is based on the microeconomics of rent-seeking as well as on the literature on trust, reciprocity, and social capital, we examine neither the details of particular economic or political markets nor the ebb-and-flow of historical events. Indeed, our approach abstracts from this level of detail and focuses on economy-wide trends of and associations among four variables: the size of government, trust in government, lobbying/rent-seeking activity, and labor productivity. We test whether these variables maintain long-run associations with one another, that is, if they are cointegrated, and whether the findings are consistent with either of the above viewpoints. Thus, the paper presents a novel approach that is relevant to the political economy literature, studies of the growth of government, and work on trust, social capital, and social governance. Moreover, it provides new empirical evidence with which to interpret major economic and social trends.

The remainder of the paper is organized as follows: Section II presents an overview of the literature of the growth of government, with discussion of central themes that are closely tied to the political economy and public interest models. Section III presents the theoretical discussion and empirical implications of the political economy model as well as the implications of the public interest view. The role of social capital and trust in government is discussed and incorporated here. Section IV provides an overview of the data. Section V describes the econometric analysis and the findings. We specify an empirical model that allows us to examine the long-run association of, and the dynamics of the relationship between, government size and trust in government. Using the vector error correction model (VECM), we test for and characterize the long-run (cointegrating) relationship between trust, government size, and two other variables that we hypothesize play a role in the dynamic adjustment process: lobbying/rentseeking and labor productivity. When measuring government activity with federal transfer spending or with pages in the Code of Federal Regulations, our estimates imply the existence of a long-run association between trust and government size where higher levels of government lead to lower trust, greater lobbying/rent-seeking, and lower productivity. This is consistent with the political economy model. Results using other measures of government size do not support the political economy model, though there is no support for the public interest framework.