An Essay on Alesina and Wacziarg-Type Indirect Link

Sedef Sen
Kastamonu University, Turkey
sedefsen@gmail.com

Abstract:

Two very different ways of thinking about globalization's effect on government behavior have emerged in the literature. These are commonly referred to as the *compensation* and *constraint* hypotheses. The basic argument in the former is that increasing *trade openness* leads to an enlargement of the public sector, as governments recognize the social cost and external risk of globalization and have compensated losers by increasing spending on social programs. A large body of literature deals with the positive relationship between economic globalization and government size. However, Alesina and Wacziarg (1998) offered a different perspective but "not mutually exclusive explanation for positive empirical relationship between openness and government size" suggested by Cameron (1978), Rodrik (1998) and others. They argue this link is mediated by *country size* and show that smaller countries are more open to trade and have a larger share of public consumption in GDP. More specifically, they cast doubt on the existence of a Rodrik or Cameron-types direct link. In this study, we have tested Alesina and Wacziarg-type indirect link and found that economic globalization increases government size more in small countries.

Keywords: Fiscal Policy, Comparative Studies of Countries, Economic Globalization

JEL Codes: E62, O11, O57