Why Government Grows: Unraveling the Interwoven Drivers of Public Spending

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I. Introduction: The Complexity of Causation

The infographics that accompany this White Paper demonstrate a frequently observed phenomenon: government expenditures growing faster than the rate of inflation and population growth. Scholars have endeavored to explain this for decades. But finding a simple solution has proven difficult. Our hyper-partisan political climate adds to the complexity in that government growth becomes a blame game between the political ins and outs, when the reality suggests it grows regardless of red or blue majorities.

Causation defies simple explanation. The sinking of the Titanic provides an example. It is easy to say that the Titanic sunk because it hit an iceberg. But that is an oversimplification. If the Titanic had a double-hull or bulkheads that ran the height of the ship, it might have survived or stayed afloat long enough to rescue most of its passengers (See the sinking of the Andrea Dorea in 1956). Further, we know that criminally negligent construction ("soft" metal among many shortcuts) contributed significantly to its floundering. And finally, Captain Smith ignored warnings that icebergs were sighted on course. If he had slowed, it's possible the ship could have avoided the iceberg or suffered less damage upon impact. Yes, hitting the iceberg is the immediate proximate cause of the Titanic disaster. But other factors sealed the Titanic's fate. Staying with the Titanic analogy, it is easy to say that "politics" drives increases in government outlays greater than the cost of living. It would be naïve to assert otherwise. But ideological differences over the size and scope of government and their spillovers to the budgeting process cannot, by themselves, explain why government expenditures may increase at rates higher than many private entities.

In this white paper, I endeavor to provide rationale for the financials described in our accompanying presentation of Miami-Dade, Broward, and Palm Beach Counties, for fiscal years 2020 through 2024. My approach is holistic, accounting for the fact that elected officials must deal with actions (or in some instances, inactions) of their predecessors. In a society based on the rule of law and sanctity of contract, budget legacies from prior administrations are not typically waved away with a conductor's baton. They frequently impede the legislative and administrative degrees of freedom of current actors. This adds another complication to explaining why government grows.

In the next section of this paper, I present eight rationales that explain the growth of government, in particular, the tendency of government expenditures to frequently exceed the cost of living or personal income. These are not encyclopedic. But they provide insight into why slowing the growth of government expenditures has proven so difficult, despite intense anti-government and anti-tax sentiment.

II. Drivers of Growth: Plausible Candidates

These candidates are not presented in a particular order. They are viewed as "equal opportunity" drivers of government expenditure.

1. The Public Choice View of Elected Officials and Civil Servants

James Buchanan (Nobel Laureate in Economics, 1986) was "The Father of Public Choice," which he described as "politics without romance." In essence, Buchanan applied the tools of economics to explain political behavior, asserting that elected officials and civil servants were no different than anyone else—maximizing utility is the real driver of their actions (Buchanan and Musgrave, 1999). Yes, these actors can appeal to the "public good," or "community well-being," but self-interest is the real deal.

In the case of elected officials, the assumption is that re-election is their primary objective. This suggests "bringing home the bacon" to their constituents is a core ingredient of success. Whether the projects or services they support can survive rigorous benefit-cost calculus is irrelevant.

Public Choice adherents typically view civil servants as "bureaucratic budget maximizers," out to either grow their budgets or to survive cuts (Blais and Dion, 1990). Again, bureaucrats may claim to be looking out for the public good. But their behavior mirrors that of the elected officials. Further, Public Choice adherents believe that civil servants use information asymmetry to their advantage when dealing with politicians, who are frequently part-time and not subject matter experts. A parks and recreation manager may tell a city commissioner that a swing set averages X dollars to acquire, when they can be obtained for X-30 percent. This information asymmetry may lead to padded budgets.

Many public choice tenets defy empirical verification. Further, elected officers are more knowledgeable than public choice adherents theorize. They also have full-time staff to assist with oversight. And in many state and local governments, personnel levels in absolute and per capita terms have declined since the Great Recession (Maciag, 2017) Nonetheless, the self-interested budget dynamic provides insight on why government outlays continue to grow, regardless of the party in power.

2. "Baumol's Disease:" Government Cost Control and the Capital-Labor Tradeoff

Economist William Baumol (1922-2017) posited that some institutions, such as prisons, hospitals, and universities, have difficulty containing costs (Hartwig and Kramer, 2023). This is based on their inability to trade high-cost labor for lower-cost capital in their respective production functions. Automakers in Detroit and Ulsan (Korea) can automate an increasingly large share of production. The same can't be said for a university physics department. It needs high-priced labor (Ph.D.'s earning six-figure salaries) and state-of-the-art laboratories.

Governments in general, particularly local governments, are labor intensive. And it is unsurprising that in the latter, public safety often comprises sixty percent or more of expenditures. Some may recall the movie "Robocop" (1987), in which cyborgs replace Detroit's sworn officers to maintain law and order. Such a replacement is thought-provoking and perhaps increasingly possible with advancing technology. But for the time being, policing is the province of human beings with high salaries. And their effectiveness depends on advanced technology and data analytics. Policing is a service industry that is not amenable to significant cost containment.

An important corollary of Baumol's Disease is the reality that governments do not generally have the flexibility to curtail services within their jurisdictions to the extent of a private employer. Some jurisdictions, such as Philadelphia or Detroit, have effectively mothballed parts of their city due to profound (50%) population loss and cut employment consequently. But this demographic imperative is rare and would not apply to Florida. Private entities can alter their footprint to match demand. For example, 900 bank branches closed nationwide in 2024, reflecting in no small part the rise of banking online, particularly for younger customers. But closing a bank branch is not the same as closing a public library or police station. The latter may impact service delivery and quality for entire neighborhoods or subdivisions.

The upshot is that government operations are both labor- and capital-intensive, mitigating the efficiencies associated with technological advancement. Moreover, a public manager may not have the same discretion over service delivery as a bank executive or restaurant operator. These factors make cost abatement more difficult in government than in the private or nonprofit sectors.

3. Fixing the Pension Mess of Prior Generations

According to the U.S. Department of Labor, 82 percent of full-time government employees have access to a traditional defined-benefit (DB) pension. This varies significantly from the private sector, which opted for the 401(k) style, defined contribution (DC) model nearly 40 years ago. While some states (New Jersey and Pennsylvania) and local governments have closed their DB plans and opted for the defined contribution style retirement plans, the DB model predominates in government (Bruns Ali and Frank, 2019).

The private sector largely abandoned the DB model to avoid the significant actuarial and financial burdens associated with their design and execution. Moreover, federal legislation mandates that private employers must run actuarially sound plans. But this legislation does not apply to DB plans in government (Cong, Frank, Gianakis, and Guo, 2015). This has resulted in many federal, state, and local governments facing significant underfunding of their DB plans, with estimates ranging from $750 billion to $4.4 trillion.

Significant changes in accounting rules have diminished the ability of governments to obfuscate their pension shortfalls (Government Accounting Standards Board, 2012). They can no longer "kick the can forward" to future elected officials and residents. This has resulted in sharply rising pension contributions. In 2012, state and local government pension contributions were 3.9 percent of general fund expenditures. They are now 4.7 percent of general fund spending, approximately twice their level in 2002 (Draine, Sliwa, Biernacka-Lievestro and Judd, 2025).

While contribution levels may be stabilizing, there is no doubt that many governments will continue to face pressure in funding the pension obligations of prior decades. As older generations pass and younger workers opt for the DC model and its portability (20 percent of the State of Florida's workforce has opted for the DC model), funding pressures will abate. Meanwhile, pension contributions have escalated, with significant budgetary consequences.

4. Playing Catch-Up on Decaying Infrastructure

The 1980s brought the term "infrastructure crisis" into vogue (Choate and Walter, 1983). Longstanding disinvestment in America's physical plant, measured as a shrinking percentage of American gross domestic product devoted to capital improvements, took its toll. The 1983 collapse of the Interstate 95 bridge in Connecticut that took three lives, was a stark reminder that much of the country's physical plant was in serious disrepair. Closer to home, the post-collision collapse of the Sunshine Skybridge in 1980, that took 35 lives, and the more recent collapse of the Francis Scott Key Bridge in 2024, which took six lives and disrupted traffic in Baltimore for months, served as reminders that while infrastructure may be functional, age and poor design can have catastrophic results.

In 2001, the Governmental Accounting Standards Board (GASB Statement 34) instituted accounting rules for state and local governments that obligated reporting on the status of infrastructure. These rules allow outside stakeholders (e.g., residents, civic groups, and bond rating agencies) to ascertain if governments are replenishing their depreciating fixed assets. As was the case with public sector pensions, these accounting rule changes have contributed to greater transparency regarding the state of the infrastructure and helped quantify the challenges we face in capital expenditures.

Despite recent upticks in capital investment, the American Society of Civil Engineers (2025) estimates over $3 trillion in unmet capital need through 2033. This suggests that addressing "The Infrastructure Crisis" is ongoing and likely to require significant outlays for all levels of government.

These outlays are generally viewed as accretive to economic growth. The Council of Economic Advisers, Moody's, the Congressional Budget Office and others estimate that a dollar of infrastructure growth is likely to return $1.50 or more of economic growth (Stupak, 2018; McNichol, 2019). This is a conservative estimate that may not factor in cost savings of operations for the private sector. Viewed through this prism, playing "catch up" on the infrastructure front is an essential ingredient to economic vitality and its growth is likely to have positive economic spillovers for years if not decades.

5. Interjurisdictional Competition and "Keeping Up with Joneses"

The Founders gave us a compound republic. This connotes and denotes competition for residents and businesses between jurisdictions, particularly within states and regions (Wagner, 2001). This competition is a two-edged sword. On the one hand, it damps growth in taxes: Taxing at rates significantly higher than neighboring jurisdictions may lead to out-migration of residents and jobs. But on the other hand, failure to provide the services and amenities comparable to neighboring jurisdictions could also foster outmigration. This fiscal "Yin and Yang" is inescapable. Anyone who uses Zillow or Redfin sees how important things like property taxes, school quality, commute times, and recreation facilities are to prospective homeowners.

Economic studies suggest that "copycatting" of competing jurisdiction's infrastructure is especially important in the realm of what is often termed "economic development infrastructure" such as airports, seaports, and convention centers. In this arena, an arms race mentality exists under the assumption that failure to compete with peers might deal a significant blow to current and future business. The recent $640 million renovation of the Miami Beach Convention Center and adjoining Grand Hyatt Hotel to open in 2027 are excellent examples of the real and perceived need to keep up with competing jurisdictions to maintain competitiveness nationwide (Lugo, 2024).

The Florida Chamber of Commerce's recent study on the state of the economy confirms that residents are mobile (Klaver, 2025) and exiting given Florida's high cost of living. Residents engage in a benefit-cost assessment that encompasses many factors which include tax pricing for public goods and services related to individual and household earnings. Thus, interjurisdictional competition may drive overall cost-effectiveness that puts downward pressure on taxes and upward pressure on the quantity and quality of public services.

6. Population Density and Age of Residents Matter

Per capita costs for services like fire, streets and highways, parks and recreation, and sewer and solid waste, may decrease with increased density. Servicing more residents in each spatial footprint is cost-effective. On the other hand, policing costs increase with density, which is generally associated with higher crime rates. There is also evidence that municipal governments over 500,000 face a U-shaped cost function in which per capita costs increase significantly (Holcombe and Williams, 2008).

An aging population is also likely to increase the cost of urban services. With increased age comes greater calls for senior services and centers. An older population demands more health care and escalates the need for emergency services and community-based programs (Roldan, Coyle, Ward, and Mutchler, 2019). Further the cost burdens associated with aging may escalate borrowing costs. The increase in senior population places greater burdens on the working-age population, lessening borrowing capacity and creditworthiness of the community (Butler and Yi, 2022).

The Tri-County Region has a significant proportion of the state's 60 and older population. And it is getting older. The region is attracting more affluent retirees than the rest of Florida, suggesting greater ability-to-pay for governmental services. However, in broad relief, an aging population correlates with higher municipal costs. The "aging out" of the Baby Boomers, will place upward cost burdens on governments at all levels.

7. Increased Outlays for Enhanced Resilience

According to the Florida Stormwater Association, it is estimated that in 2024, 171 local jurisdictions adopted non-ad valorem fees for improvements, and the number is growing. This is a prime indicator of the increasing need for governments to harden their infrastructure in the context of rising sea levels and street flooding due to increased development. In the region, Miami Beach is planning on spending nearly $500 million over the next 20 years to enhance stormwater utilities and overall resilience. Further, an infusion of state and federal funding is being spent on hardening the water infrastructure, power grid, and transportation network due to an increase in extreme climate events and growing awareness of related economic and social vulnerability.

The increasing calls for resilience may be a significant cost driver for governments nationwide, with particular significance for the Sunshine State given its vulnerability. It is worth noting that bond rating agencies are routinely factoring investment and planning related to sea level rise and extreme weather events into their assessments of creditworthiness (Cox, 2022). While discussions of "resilience" may be cliché in some circles, politically neutral bond rating agencies view hardening of public infrastructure as a necessity, not a frill, with obvious fiscal consequences.

8. Debt as Fiscal Illusion

Debt is neither inherently good nor bad. The purpose and related benefits and costs determine its value. Borrowing to attend college or purchase a home may foster future earnings and grow net worth down the road. Running up significant credit card debt on restaurant and entertainment expenses is different.

Government borrowing, like its personal counterpart, may have long-term value. But the burdens imposed by governments are not necessarily done with the direct consent of taxpayers. These debts may be what Herman Leonard (1986) terms a "quiet" form of government spending. Furthermore, they often take on intergenerational time frames due to debt maturities of 20 or more years.

This relative lack of transparency raises the possibility of government debt opening the door to what economists term a "fiscal illusion" (Banzhaf and Oates, 2012). Elected officials and taxpayers alike may believe they can obtain "something for nothing" because current consumption is funded through debt that is serviced by future generations.

A cornerstone of behavioral economics provides rationale for how this fiscal illusion takes hold. Human beings engage in hyperbolic discounting (Gowdy, Rosser, and Day, 2013; Wheelan, 2019). They value short-term gains far more than long-term benefits or harm. Heavy drinkers are unlikely to recognize potential cirrhosis. Casual, unprotected sex may be viewed through the same prism, i.e., potential pregnancy or sexually transmitted disease. Similarly, it may be difficult for a new doctoral student to comprehend the intellectual and financial payoffs of years-long matriculation. In essence, we are wired to see the immediate and forego the intermediate- and long-term. That explains why car salesmen and finance managers get prospective customers to focus on monthly payments rather than the overall outlays needed for lease or purchase.

Unlike their federal counterpart, state and local governments are required to pass balanced budgets. Nonetheless, U.S. Census Data reveals that the combined state-local debt per capita has risen from approximately $10,000 to $14,000 over the last 15 years. Typically, this debt is devoted to infrastructure: schools, roads, airports, bridges, sewers, and related capital outlays. But these figures also reflect the above-referenced unfunded pension liabilities as well as debt incurred to maintain operations in the aftermath of the Great Recession and the pandemic.

Regardless of purpose or social value, the fact remains that debt is a key to opening the fiscal illusion door. This illusion leaves taxpayers and elected officials with a discounted cost of running government. People will consume more of something that costs less, particularly if future generations ultimately pick up the tab.

CONCLUSION

Reiterating what was stated earlier, causation in life is complicated. Explaining the growth of government and costs that escalate faster than inflation and population is not easy. This paper provides plausible rationales that operate in concert within a fluid and challenging operating environment.

Revenue and expenditure patterns differ dramatically across jurisdictions. Interjurisdictional comparisons facilitate benchmarking. This establishes norms within expenditure categories and revenue sources. The same holds for debt. Some jurisdictions are more likely to issue it than others. Bond rating agencies focus on these norms in assigning their credit ratings. Other stakeholders such as citizens and the press can also utilize these norms to see how particular jurisdictions have evolved over time within reference groups (e.g., cities between 50,000 and 100,000 in population). These drill downs may provide further insight into the question of why government grows.

Ideological cleavage provides one proximate cause (like the iceberg) of why government may grow. But there are many others. History casts a long fiscal shadow. Demographics play an integral role, and recent concerns for resilience add a new cost driver. Voters are human, with associated cognitive biases that may foster short-term gain over long-term drain on their pocketbooks. Government's production functions are less malleable than private counterparts. Elected officials and civil servants may operate for the common good, but this may be tempered by self-interest. And lastly, people and businesses are mobile, unsheathing a two-edge sword that may escalate costs while minimizing taxes. Collectively, these drivers illuminate the difficulties attendant to government cost containment.

Since California's Proposition 13 in 1978, 41 states have enacted constitutional or other statutory limits on expenditure growth at both the state and local levels. These are collectively referred to as Tax and Expenditure Limitations (TELs). At the time of this writing, legislators in Tallahassee are considering several TELs to limit property tax growth or to eliminate it altogether (Talcott, 2025) with the objective of slowing outlays in local governments and school districts. But as Joseph Mengedoth and Santiago Rino of the Federal Reserve Bank of Richmond note in their meta-analysis (synthesis) of these measures, "The use of tax and expenditure limitations has spread since first implemented almost 40 years ago; however, the effectiveness of TELs in in fulfilling their objectives is still in question (2015: 39). This uncertainty dovetails with the multitude of cost drivers facing governments and taxpayers within a competitive federal structure.

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