

SUBSCRIBE NOW AND RECEIVE *CRISIS AND LEVIATHAN** FREE!



"*The Independent Review* does not accept pronouncements of government officials nor the conventional wisdom at face value."

—**JOHN R. MACARTHUR**, Publisher, *Harper's*

"*The Independent Review* is excellent."

—**GARY BECKER**, Noble Laureate in Economic Sciences

Subscribe to [*The Independent Review*](#) and receive a free book of your choice* such as the 25th Anniversary Edition of *Crisis and Leviathan: Critical Episodes in the Growth of American Government*, by Founding Editor Robert Higgs. This quarterly journal, guided by co-editors Christopher J. Coyne, and Michael C. Munger, and Robert M. Whaples offers leading-edge insights on today's most critical issues in economics, healthcare, education, law, history, political science, philosophy, and sociology.

Thought-provoking and educational, [*The Independent Review*](#) is blazing the way toward informed debate!

Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!



*Order today for more **FREE** book options

SUBSCRIBE

Perfect for students or anyone on the go! *The Independent Review* is available on mobile devices or tablets: iOS devices, Amazon Kindle Fire, or Android through Magzter.



Adam Smith's Roles for Government and Contemporary U.S. Government Roles

Is the Welfare State Crowding Out Government's Basic Functions?

— ◆ —

JODY W. LIPFORD AND JERRY SLICE

Government's role in economy and society is constantly debated. Views range from that of anarchists, who believe in no government, to that of totalitarian socialists, who believe in complete state control of economy and society. Most people adopt a view somewhere between these extremes, yet even moderate views may differ vastly.

For more than half of U.S. history, government's role in the United States and other developed countries was relatively minor. Taxes and expenditures as a percentage of aggregate economic output were small, and regulations were few.¹ This role began to change significantly in the late nineteenth century, as Germany instituted

Jody W. Lipford and Jerry Slice are professors of economics at Presbyterian College in Clinton, S.C.

1. National, state, and local government spending amounted to 7.6 percent of U.S. gross domestic product (GDP) in 1902 (U.S. Bureau of the Census 1975, Ser. 532, p. 1120).

The Independent Review, v. XI, n. 4, Spring 2007, ISSN 1086-1653, Copyright © 2007, pp. 485-501.

the first elements of the welfare state. Since that time, even countries that avoided the extremes of fascism and socialism have adopted a more expansive role for government. In developed Western democracies, governments have advanced the welfare state through a host of programs, such as public education, government-provided or -funded health care, and old-age pensions. Government taxing and spending as a percentage of aggregate output have risen, and regulations of the private economy are now numerous and complex.²

In this article, we do not take a position on what the state's role should be. Our aim is simpler and more objective. We first examine the roles Adam Smith advocated in his classic book *An Inquiry into the Nature and Causes of the Wealth of Nations* ([1776] 1976). Smith believed that government's proper roles in society should be limited, but well defined: government should provide national defense, the administration of justice, and public goods. In other words, it should protect citizens from external and internal aggression and supply goods that the free market may not provide.

After carefully considering Smith's writings in this essay, we compare the contemporary roles played by the U.S. government to the roles Smith envisioned. Examining government expenditures over time, we find that carrying out the roles Smith advocated has come to account for an increasingly smaller share of total government spending and that expanding the social-welfare state in the form of transfer payments has taken up an increasingly larger share of total government spending. This trend is evident at national, state, and local levels of government.

We turn next to a consideration of the consequences of an ever-expanding welfare state, which may not be limited to the creation of "big government" or the crowding out of private investment. If the roles that Smith advocated are essential to the maintenance of a safe and prosperous society, then escalating expenditures for transfers may ultimately threaten the government's capacity to provide the services that Smith deemed truly beneficial.

Ideas and Theories about Government's Role in Society

We begin with anarchy. Although the theory of anarchy appeals to staunch individualists, its possibility is a "conceptual mirage," in the words of James M. Buchanan (1975, 3). Because individuals may not abide by ethical rules, these rules may be insufficient to provide order, without which society deteriorates into chaos and lawlessness. Mancur Olson makes an economic argument against anarchy, saying that it yields "little production" (2000, 7). Without the state to enforce property rights, the losses from theft, from the use of resources for the prevention of theft, and from the organization of production so as to avert theft make anarchy impoverishing and infeasible.

2. National, state, and local government spending amounted to 31.2 percent of U.S. GDP in 2003. See Tax Foundation 2005, 41–42, table B-3. For a history of the expansion of the role of the U.S. government since the late nineteenth century, see Higgs 1987.

To preclude the losses stemming from anarchy, people form governments. Buchanan argues that people willingly forgo some of their liberties to form a social contract that establishes formal order through coercive means.³ Thus, the “protective state” is born. With order established, productivity rises, and investments aimed at the prevention of theft fall.

Randall Holcombe (2004) takes a different approach to government’s origins. He argues that governments result not when social contracts are made, but when those with coercive power undertake to protect citizens’ incomes. These protectors extract their own incomes from the protected citizenry. The citizens try to bend this coercive process into a form of government that minimizes internal and external predation.

An established government may take a number of forms, from a stationary bandit to majority rule, but Olson argues that as long as the government has an encompassing interest, it will implement growth-enhancing (or market-augmenting) policies, such as secure property rights and contract enforcement. Yet the state may do far more than establish law and order and implement growth-enhancing policies. It may also provide public goods, funded through mandatory taxes in order to overcome the citizens’ incentives to free ride.⁴

Advocates of limited government have long recognized the government’s propensity to grow in size and scope beyond the provision of order and public goods. The perception of market failure (Bator 1958) provides a rationale for government growth, not only to correct purported resource misallocations by the market, but also to provide macroeconomic stability, the need for which has seemed especially urgent since the Great Depression.

The threat of Leviathan government, which Buchanan clearly recognizes, comes not only from ideologues and bureaucrats, but also from majorities who vote to redistribute income in their favor and to fund projects that do not pass aggregate benefit-cost tests. Because democracies do not limit government and may even foster its growth, Buchanan argues for constitutional constraints to delineate and circumscribe government’s functions.

Government growth in democracies seems irresistible, however. Robert Higgs (1987) reviews and critiques explanations of government growth, including the modernization hypothesis, the assumed necessity of government-provided public goods and social welfare, the role of interest groups in income redistribution, and ideology. His own work focuses on crisis as a source of government growth, and his detailed

3. For a review and critique of social-contract theorists John Rawls, Robert Nozick, and James M. Buchanan, see Gordon 1976.

4. We recognize that government provision of public goods is the accepted view of mainstream economists and political scientists, but also that dissenters from this view have made a strong case. For example, privately owned guns, gated communities, and private security forces can substitute for public police forces. Similarly, the emergence and growth of private and home schools attests to the private sector’s capacity to provide education. DiLorenzo (2004) provides evidence in his insightful historical analysis that most nineteenth-century roads and canals in the United States were privately built and far more efficient than public projects, such as the heavily subsidized transcontinental railroads.

analysis of twentieth-century U.S. economic history shows how the crises of two world wars and the Great Depression led directly to larger government through the expansion of its roles in many areas and through changes in ideology and public perception regarding government.

Expounding on the link between democracy and liberty, Holcombe (2002) argues that as countries become more democratic, liberty may diminish. If a majority faces few, weak, or weakening constitutional constraints, an expansion of democracy means that individual rights will succumb to the majority's wishes.⁵ Resource allocation, formerly determined by individual decisions and private contract, will be determined instead by majority rule.

The tendency toward expansion of government power is exacerbated if politicians who seek to increase their power also weaken the constraints on that power. As Charlotte Twight (2002) argues, the citizens' political transactions costs of constraining government are not exogenous, but can be increased by power-seeking politicians when they make it difficult to acquire accurate information about government programs and enforce limits on government power. As the political transactions costs of monitoring and controlling government rise, governmental authority not only expands, but the citizens' ideology changes so that increased dependency on government comes to be perceived as the norm.

In a more recent and broader review of theories of government growth, Thomas Garrett and Russell Rhine (2006) distinguish between citizen-over-state theories and state-over-citizen theories. The former emphasize government's response to interest-group demands for beneficial policies and to citizens' demands for public goods, the regulation of externalities, and wealth redistribution. The latter emphasize a government's inherent capabilities to expand through bureaucratic incentives, fiscal illusion, and lack of competition.

Returning to the question of government's proper role in economy and society, we reiterate that no consensus exists. To evaluate the current size and scope of the U.S. government, we need some external criterion, and for this standard we appeal here to Adam Smith.

Adam Smith on the Size and Scope of Government

Smith's insights into political economy continue to astound economists and political scientists. When writing about government, Smith set forth his position clearly and directly:

According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understanding: first the duty of protecting the society

5. Holcombe (2002) and Twight (2002) recognize that constitutional constraints may erode over time and prove inadequate to prevent government growth.

from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain publick works and certain publick institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society. ([1776] 1976, 687–88; henceforth cited by page number only)

We elaborate on each of these duties in the order in which Smith listed them.

First, Smith clearly believed that protecting society from external aggression required a “military force,” or what we call national defense today (689). This force is essential to “defend such a nation against the invasion of a poor and barbarous neighbor” and to ensure that the nation “can be perpetuated, or even preserved for any considerable period of time” (706). Smith realized that maintaining military superiority would be costly with advances in warfare technology (in his day, firearms) (707–8). He also recognized that if government spending during peacetime is profligate, war will necessitate borrowing (909).

Second, Smith saw the administration of justice as necessary for peace, security, and commerce. In lieu of civil government’s protection of property, he foresaw that the poor and propertyless would try to seize wealth from the wealthy and propertied (715). He says that “[i]t is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security.” The importance of this governmental function rises commensurately with the value of property (710).

Smith also considered a system of justice essential to the advancement of commerce and prosperity. Olson’s arguments about market-augmenting government policies seem to echo Smith’s comment that “[c]ommerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay. Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government” (910). Many recent writers’ emphasis on the necessity of secure private-property rights, contract enforcement, the rule of law, and what is more generally labeled economic freedom is strikingly similar to Smith’s.⁶

6. The literature on this topic is vast. Along with Olson, Bethell (1998), de Soto (2000), and Hoskins and Eiras (2002) provide excellent discussions of the link between institutions and economic prosperity. Berggren (2003) provides a useful summary of the empirical evidence.

Finally, Smith believed that some goods that yield great public benefit are not profitable to produce privately, so he considered the provision of what today we call public goods an essential third function of government.⁷ He specifically identified roads, bridges, canals, and harbors as public goods. Strongly believing that these public works could and should be self-financing, Smith advocated tolls or other equivalents of user fees to finance their construction and operation. Requiring projects to be self-supporting would ensure that only viable projects would be undertaken. Moreover, user fees would prevent expenditures for these works from straining the general budget and provide an equitable means of finance. Always practical and never naive, Smith acknowledged that tolls created risks of agents' overcharging users, of escalating fees to fund ever-growing government, and of roads left in disrepair. Earmarking the tolls for road maintenance and repair would alleviate these problems, but Smith understood that even earmarking has limitations. For example, he notes that assessing tolls on the basis of weight, though perhaps the efficient means of finance, favored consumers of goods with high value/weight ratios over consumers of goods with low ratios (723–28).

The subsidization of education is another public work in which government had a rightful role, according to Smith. He recognized problems of ignorance and stupidity, exacerbated by the division of labor, that afflicted the common people, and he argued that the state had much to gain by their education (782, 788). He argued that “[a]n instructed and intelligent people . . . are always more decent and orderly than an ignorant and stupid one,” making them easier to govern (788). Education of the common people need not be extensive or expensive. Smith stressed their needs to “read, write, and account” and favored their instruction in the applied knowledge of “geometry and mechanicks,” which would be of use in many trades (785–86).⁸

7. The literature on the productivity of public capital is vast and often supportive of Smith's contention. Munnell (1992) reviews much of the literature, concluding that although time-series estimates of the productivity of public capital are too large to be credible, state-level studies show that public capital leads to higher output, investment, and employment growth. Further, declining rates of investment in public capital may explain in part the well-recognized productivity slowdown in the United States that began in the first half of the 1970s. In a later review, Gramlich (1994) acknowledges studies that show infrastructure investment is productive, but he argues that the estimates are “implausibly high.” He points out that productivity-impact studies are plagued by a host of econometric problems, though he notes that attempts to correct these problems still yield very high estimated rates of return. Looking at highways, water supply, and sewerage at the state level, Morrison and Schwartz (1996) find a significant positive return to public investment, with variance across time and region. Yet when the cost of the investment is factored in, the rate of return is appreciably lower, perhaps approaching zero. Fernald (1999) examines only road investments in the United States and finds a strong link between public investment in roads and productivity in vehicle-intensive industries. U.S. investment in the interstate highway system provided a one-time jump in productivity, so the rate of return to a second interstate highway system would obviously be negligible.

8. Recent research again supports Smith. In a widely cited study, Mankiw, Romer, and Weil (1992) find that augmenting the Solow growth model with measures of human capital shows human capital to have a positive and significant effect on output per capita. The model's explanatory power is also increased. Of particular importance to growth theory, the addition of human capital to the model reveals convergence among countries; the lack of evidence of such convergence has long been seen as a weakness of the model.

In sum, Smith envisioned clear and distinct roles for government: provision of protection from external aggression, provision of internal order, and provision of public goods. Although he provides broad guidelines regarding how extensive government provision should be, such as his reference to the basic education necessary for the populace, he does not discuss this question in detail. We recognize this limitation in his work, but in the ensuing analysis we do not attempt to assess the proper magnitude of Smith's roles for government.

Government's Evolving Roles in the United States

What are government's roles in the contemporary United States, and how do they compare to the roles that Smith envisioned? We answer these questions here by examining national, state, and local governments' expenditure patterns in recent decades. We find that the duties of government that Smith advocated have accounted for an increasingly smaller share of government expenditures and that roles Smith never envisioned, specifically the vast array of income-redistribution programs associated with the modern welfare state, have accounted for an increasingly larger share of government spending.

The National Government

To begin, we examine federal government expenditures from 1962 to 2005, with estimates through 2011. The categories of spending that correspond almost exactly to those Smith prescribed are national defense, administration of justice, transportation, and education. The ratio of the sum of these expenditures to total federal government expenditures is shown in table 1. Figure 1 shows a plot of these expenditures with a trend line imposed. As the data make clear, the share of spending on the duties Smith advocated has fallen precipitously over the past four decades. The share of federal spending on national defense, administration of justice, transportation, and education in 1962 is almost twice the share in 2005 and, if projections prove accurate, will be almost two and one-half times the share in 2011.

At the same time, federal spending on income redistribution—composed of spending on labor and social services, health, Medicare, income security, and Social Security—has escalated. As shown in table 1 and figure 2, social spending as a percentage of total spending rose from 23.4 percent in 1962 to approximately 60 percent by the late twentieth and early twenty-first centuries. Moreover, estimates indicate that this percentage will continue to rise.

Easterly, however, casts strong doubts on Mankiw, Romer, and Weil's findings (2001, 78–81). Looking at education from a different perspective, Gradstein and Justman see a role for public education as a socializing force leading to civic virtues and social norms that reduce conflict among social groups. The economic advantages may be great because public education plays a pivotal role in “reducing transactions costs by shrinking the ‘social distance’ between individuals in the economy” (2002, 1192).

Table 1
Federal Government Spending on Smith's Duties and on
Social Expenditures as a Percentage of Total Expenditures,
1962–2011 Estimate

Year	Expenditures on Smith's Duties as a Percentage of Total Expenditures	Social Expenditures as a Percentage of Total Expenditures
1962	54.4	23.4
1963	53.6	24.0
1964	52.1	23.9
1965	49.6	24.6
1966	50.4	25.2
1967	52.6	25.2
1968	53.1	26.2
1969	51.9	29.0
1970	49.0	30.9
1971	45.3	35.7
1972	42.3	38.2
1973	39.4	40.2
1974	37.0	42.3
1975	33.7	43.7
1976	32.5	46.0
1977	32.1	46.0
1978	31.5	44.2
1979	32.1	44.5
1980	31.3	45.2
1981	31.3	46.1
1982	31.0	46.2
1983	31.7	47.2
1984	32.5	45.4
1985	32.4	44.8
1986	33.4	43.7
1987	33.6	45.2
1988	32.9	45.2
1989	32.1	44.8
1990	29.3	44.9
1991	26.3	47.4
1992	27.4	51.1
1994	25.1	54.8

Year	Expenditures on Smith's Duties as a Percentage of Total Expenditures	Social Expenditures as a Percentage of Total Expenditures
1993	26.8	53.6
1995	24.2	55.9
1996	23.0	56.7
1997	23.0	57.9
1998	22.4	57.7
1999	22.4	57.4
2000	22.9	57.5
2001	23.2	59.4
2002	24.8	60.3
2003	26.5	60.0
2004	27.8	59.1
2005	27.6	58.1
2006 est.	27.3	57.1
2007 est.	25.9	59.3
2008 est.	24.3	60.7
2009 est.	23.4	61.1
2010 est.	22.8	62.0
2011 est.	22.0	63.3

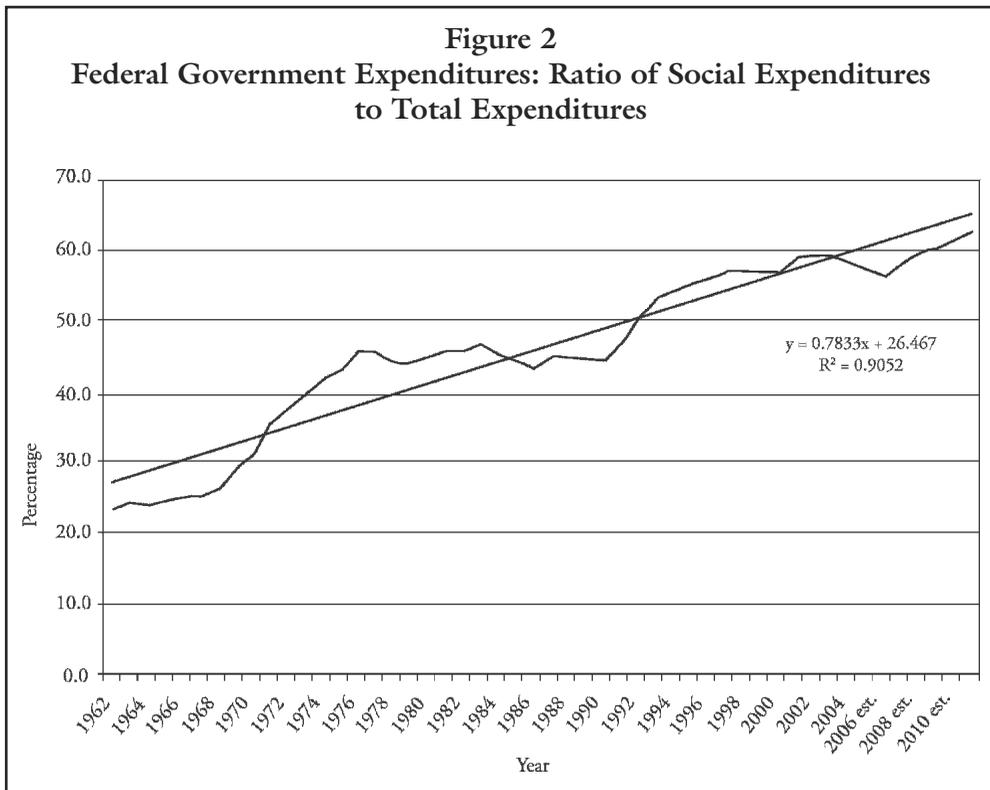
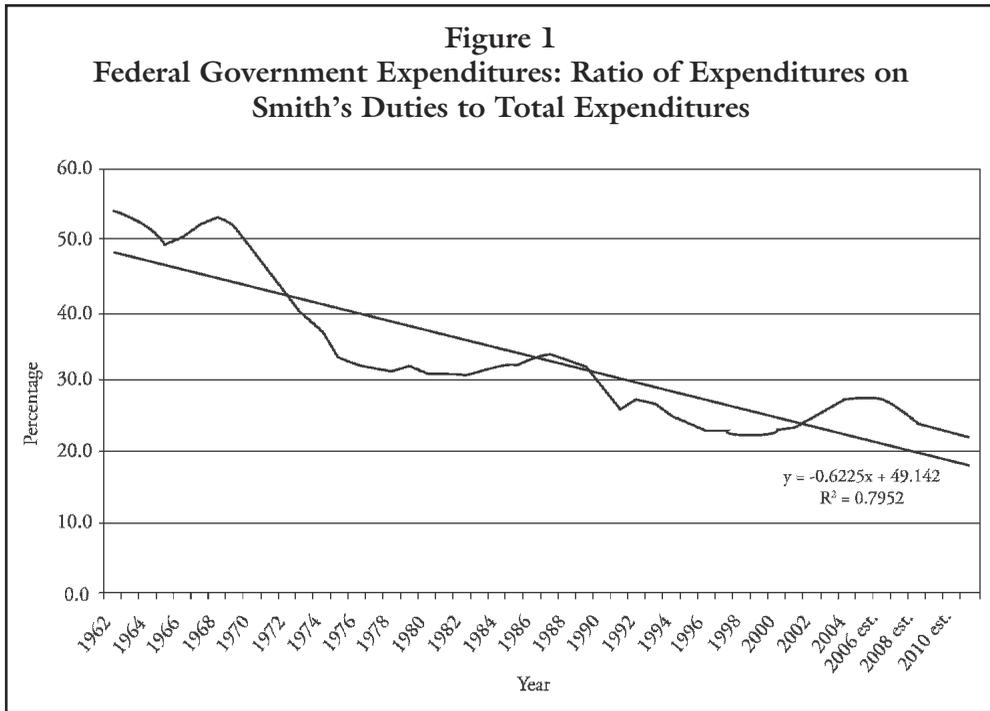
Note: Expenditures on Smith's duties are expenditures on national defense, administration of justice, transportation, and education. Social expenditures are expenditures on labor and social services, health, Medicare, income security, and Social Security.

Source: Congressional Budget Office 2006, table 3.1.

What is perhaps most striking in figures 1 and 2 is the strong fit of the linear trend lines. Recent years show a slight increase in the share of spending on Smith's designated duties and a slight decrease in the share of spending on social welfare, but estimates indicate that these reversals are short-term changes. The long-term forecast indicates that the trends demonstrated by the fitted lines will continue. Although complete displacement of expenditures on Smith's duties by social expenditures is impossible—the latter cannot reach 100 percent of total expenditures—the trends do not suggest the likelihood of a reversal any time soon.

State and Local Governments

We also examined state and local expenditures, for which we have a consistent time series from 1902 to 2002. The spending categories that resemble those Smith regarded as describing the proper roles of government are public education, highways, police



and fire protection, and administration, the latter including financial, judicial and legal, general public building, and other administrative expenditures. The ratio of the sum of state and local government expenditures that are legitimate from Smith's perspective to total state and local government expenditures is given in table 2 and plotted in figure 3. The data show that the ratio of state and local governments' expenditures on Smith's advocated duties for government to their total expenditures has decreased over the past century. The drop is rather steady over this time period, except during the Great Depression, when it was steep, and in the 1950s and early 1960s, when the percentage spent on Smith's duties rose slightly. Overall, spending on public education, highways, police and fire protection, and administration decreased from a peak of 64.8 percent of total spending in 1922 to 43.6 percent in 2002, a 32.7 percent decrease.

We also computed the ratio of expenditures on social goods—measured by expenditures on welfare, health and hospitals, and insurance trusts (employee retirement, unemployment compensation benefits, worker compensation benefits, and other social programs)—to total expenditures and show our results in table 2 and figure 4. As expected, social spending as a percentage of total spending rose dramatically from a low of 7.4 percent in 1913 to 29.1 percent in 2002, a 3.9-fold increase. Although trends in state and local government spending are less pronounced than their federal counterparts, the fits of the trend lines are comparable. Also, like their federal counterparts, these trends suggest no impending reversal.

Implications

As the trends at both the national level and the state and local levels make clear, expenditures on traditional government functions advocated by Smith are being rapidly supplanted by social spending. The striking implication is that governments may find it increasingly difficult to provide traditional government services without significant tax increases or larger deficits.⁹

These observations have not been lost on federal budgetary experts. The Congressional Budget Office (CBO) recently noted the following in its long-term forecast: "Not only has the amount of spending grown, but its composition has changed dramatically. Spending for mandatory programs has increased from less than one-third of total spending in the early 1960s to more than one-half in recent years. Most of that growth has been concentrated in Social Security, Medicare, and Medicaid. Together, those programs account for about 42 percent of federal outlays, compared with 2 percent in 1950 (before health programs were created) and 25 percent in 1975" (2005, 4). Yet the CBO's assessment is that these trends

9. The functional relationship between the growth in demand for traditional government services and the growth in population and the economy need not be linear; hence, our conclusion is tentative. That is, a larger absolute value of traditional government services may be sufficient, even if the share of traditional services is declining. Although investigation of this question lies beyond the scope of this article, we believe that our conclusion has merit because of the relentless growth of welfare programs.

Table 2
State and Local Government Spending on Smith's Duties and on Social Expenditures as a Percentage of Total Expenditures, 1902–2002

Year	Expenditures on Smith's Duties as a Percentage of Total Expenditures	Social Expenditures as a Percentage of Total Expenditures
1902	60.4	8.86
1913	60.8	7.40
1922	64.8	8.00
1927	63.1	7.87
1932	60.1	12.14
1934	54.2	18.36
1936	54.4	17.06
1938	52.8	20.05
1940	47.8	21.81
1942	48.4	22.29
1944	50.1	20.41
1946	46.2	25.12
1948	48.7	21.28
1950	47.6	25.33
1952	50.8	21.61
1954	52.6	21.56
1956	55.2	19.20
1958	53.6	21.31
1960	54.3	20.05
1961	53.4	21.05
1962	54.1	20.29
1963	54.5	20.14
1964	54.7	19.57
1965	54.7	19.18
1966	56.0	18.39
1967	56.3	19.00
1968	55.3	19.84
1969	55.1	20.28
1970	54.8	21.35
1971	53.5	22.97
1972	52.7	23.46
1973	51.5	23.60
1974	50.9	23.76

Year	Expenditures on Smith's Duties as a Percentage of Total Expenditures	Social Expenditures as a Percentage of Total Expenditures
1975	49.2	25.34
1976	47.9	26.70
1977	47.2	26.22
1978	48.5	25.27
1979	48.1	24.52
1980	47.5	24.94
1981	45.5	26.04
1982	44.9	26.36
1983	44.2	26.82
1984	44.9	25.47
1985	45.1	25.12
1986	45.2	24.52
1987	45.1	24.55
1988	45.2	24.54
1989	45.3	24.77
1990	44.9	25.56
1991	44.1	26.87
1992	42.9	29.04
1993	42.7	29.87
1994	42.5	29.80
1995	42.5	30.15
1996	43.1	29.55
1997	43.5	28.80
1998	44.4	27.93
1999	44.7	27.66
2000	44.9	27.82
2001	44.3	27.96
2002	43.6	29.09

Note: Expenditures on Smith's duties are expenditures for public education, highways, police and fire protection, and administration. Social expenditures are expenditures for welfare, health and hospitals, and insurance trust funds.

Source: Tax Foundation 2005, table D-8, p. 155.

are unlikely to be reversed because the most rapidly growing expenditures are considered mandatory entitlements. Social Security is a problem, but as CBO experts acknowledge, “[t]he future growth of Social Security costs . . . pales next to the likely increases in costs for the government’s major health care programs: Medicare and Medicaid” (4). They continue: “If past growth rates persist, spending for health care will eventually consume such a large share of the nation’s output that

Figure 3
State and Local Government Expenditures: Ratio of Expenditures on Smith's Duties to Total Expenditures

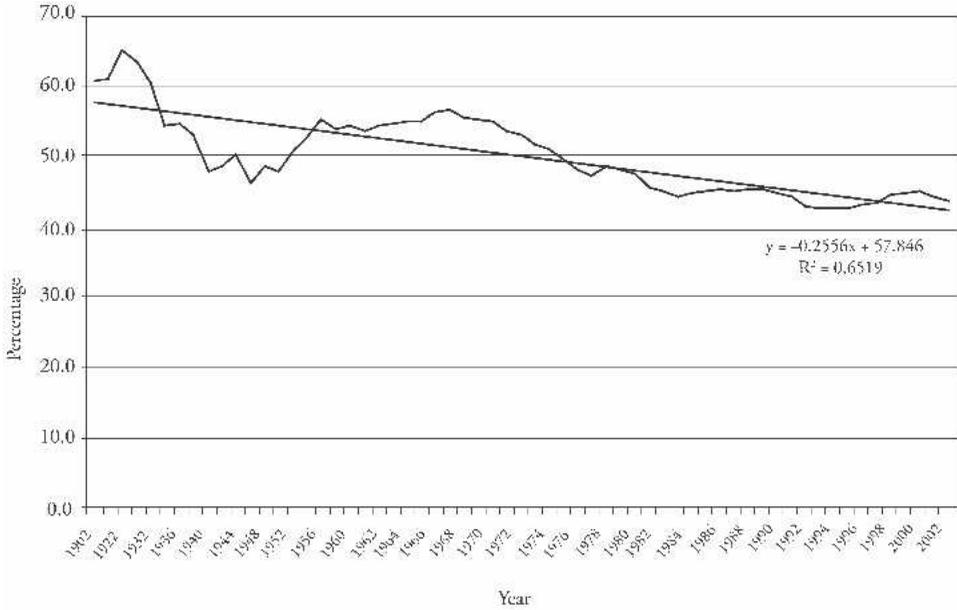
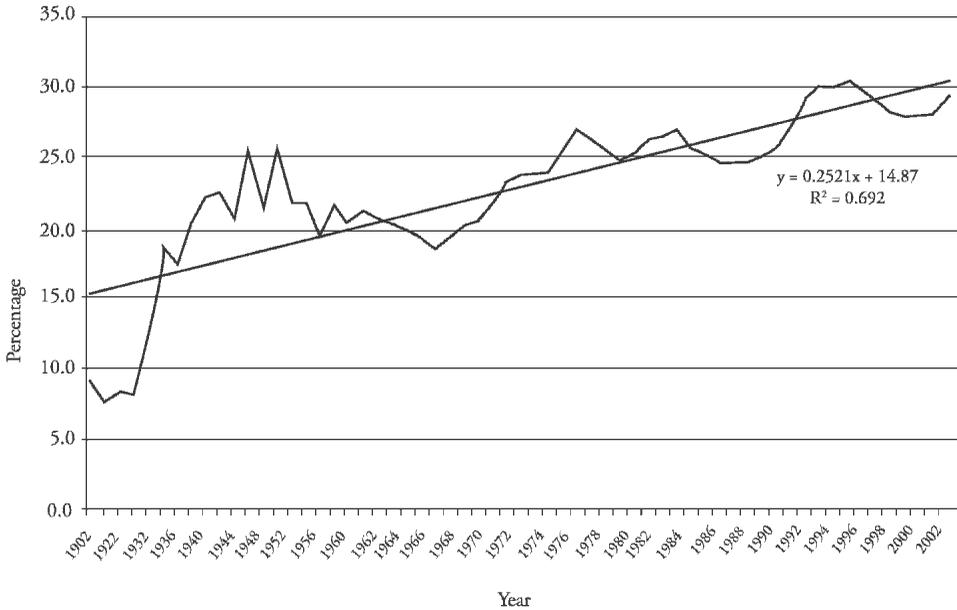


Figure 4
State and Local Government Expenditures: Ratio of Social Expenditures to Total Expenditures



real (inflation-adjusted) spending on other goods will have to decline sharply. There is no evidence to suggest that excess cost growth will slow significantly in the short run. Moreover, some level of excess cost growth is likely to continue for some time to come" (7). The consequences of funding these expenditures through higher taxes or higher deficits or both are "slow private capital formation, lower economic growth, and in the extreme . . . a sustained economic contraction" (13).

Because state and local data paint a similar, though less extreme, picture to the one the federal data portray, looking only at the much publicized scenario of future spending on Social Security and Medicare understates the true magnitude to which social-welfare spending is displacing spending on the duties of government Smith deemed appropriate. At all levels of government, the growth in social spending may dramatically strain fiscal resources and make it difficult or impossible for government to fund the performance of its traditional functions.

Conclusion

For more than a century, the U.S. government's size was small and its functions well defined. Many of the original Founders feared the growth of government, and classical economists such as Smith clearly identified what they deemed the proper roles for government in a free society. Beginning in the late nineteenth century, however, governments began to change their emphasis from carrying out these traditional roles to advancing the welfare state. This profound change in emphasis brought about a variety of programs to redistribute income, all of which were promoted and justified in the name of the "social good."

The consequences of this marked change have been numerous. We have focused here on the potential for social-welfare expenditures to crowd out the traditional functions of government that Smith and others deemed necessary for a well-functioning, free society. The longer these trends continue, the more difficult it will be politically to change them.

References

- Bator, Francis. 1958. The Anatomy of Market Failure. *Quarterly Journal of Economics* 72: 351–79.
- Berggren, Niclas. 2003. The Benefits of Economic Freedom: A Survey. *The Independent Review* 8, no. 2: 193–211.
- Bethell, Tom. 1998. *The Noblest Triumph: Property and Prosperity Through the Ages*. New York: St. Martin's Press.
- Buchanan, James M. 1975. *The Limits of Liberty: Between Anarchy and Leviathan*. Chicago: University of Chicago Press.

- Congressional Budget Office. 2005. *The Long Term Budget Outlook*. Washington, D.C.: Congressional Budget Office, December. Available at: <http://www.cbo.gov>.
- . 2006. *Budget of the United States FY07, Historical Tables*. Washington, D.C.: Congressional Budget Office. Available at: <http://www.gpoaccess.gov>.
- De Soto, Hernando. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.
- DiLorenzo, Thomas J. 2004. *How Capitalism Saved America: The Untold History of Our Country from the Pilgrims to the Present*. New York: Crown Forum.
- Easterly, William. 2001. *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. Cambridge, Mass.: MIT Press.
- Fernald, John G. 1999. Roads to Prosperity? Assessing the Link Between Public Capital and Productivity. *American Economic Review* 89: 619–38.
- Garrett, Thomas A., and Russell M. Rhine. 2006. On the Size and Growth of Government. *Federal Reserve Bank of St. Louis Review* 88: 13–30.
- Gordon, Scott. 1976. The New Contractarians. *Journal of Political Economy* 84: 573–90.
- Gradstein, Mark, and Moshe Justman. 2002. Education, Social Cohesion, and Economic Growth. *American Economic Review* 92: 1192–204.
- Gramlich, Edward M. 1994. Infrastructure Investment: A Review Essay. *Journal of Economic Literature* 32: 1176–96.
- Higgs, Robert. 1987. *Crisis and Leviathan: Critical Episodes in the Growth of American Government*. New York: Oxford University Press.
- Holcombe, Randall G. 2002. Liberty and Democracy as Economic Systems. *The Independent Review* 6, no. 3: 407–25.
- . 2004. Government: Unnecessary but Inevitable. *The Independent Review* 8, no. 3: 325–42.
- Hoskins, Lee, and Ada I. Eiras. 2002. Property Rights: The Key to Economic Growth. In *2002 Index of Economic Freedom*, edited by Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Mary Anastasia O'Grady, 37–48. Washington, D.C.: Heritage Foundation and Dow Jones.
- Mankiw, N. Gregory, David Romer, and David N. Weil. 1992. A Contribution to the Empirics of Economic Growth. *Quarterly Journal of Economics* 107: 407–37.
- Morrison, Catherine J., and Amy Ellen Schwartz. 1996. State Infrastructure and Productive Performance. *American Economic Review* 86: 1095–111.
- Munnell, Alicia H. 1992. Infrastructure Investment and Economic Growth. *Journal of Economic Perspectives* 6: 189–98.
- Olson, Mancur. 2000. *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships*. New York: Basic Books.
- Smith, Adam. [1776] 1976. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Indianapolis, Ind.: Liberty Press.
- Tax Foundation. 2005. *Facts and Figures on Government Finance, 38th Edition*. Edited by Sumeet Sago. Washington, D.C.: Tax Foundation. Also available at <http://www.taxfoundation.org/news/show/147.html>.

Twight, Charlotte A. 2002. *Dependent on D.C.: The Rise of Federal Control over the Lives of Ordinary Americans*. New York: Palgrave.

U.S. Bureau of the Census. 1975. *Historical Statistics of the United States: Colonial Times to 1970*. Washington, D.C.: U.S. Government Printing Office.

Acknowledgments: We thank the participants in the meetings of the Association of Private Enterprise Education and the editor of this journal for helpful comments on an earlier draft.