HASTERT CENTER PUBLIC POLICY SERIES

The Scope of Government and the Wealth of Nations Revisited

Joseph Connors
Department of Political Science
Duke University
j.connors@duke.edu

Seth Norton
Jean and E. Floyd Kvamme Professor of Political Economy
Wheaton College
seth.norton@wheaton.edu

August 2012

1. Introduction

The idea of limited government is a legacy of classical liberal economics. The idea had remarkable longevity except for occasional actions and ideas of warring monarchs and warring factions within warring nations. The 20th century witnessed major deviations from limited government by progressives, socialist revolutions, and most assuredly by the triumph of John Maynard Keynes's macroeconomics over a wide range of non-socialist economies. Policy makers in most market economies seemed to be wedged between rigid centrally planned economies and profligate capitalist welfare states. Moreover, the history is not static. Gwartney, Holcombe, and Lawson (1998) document the triumph of big and growing government. The record from 1960-96 in the advanced industrialized nations of the world is one of an increasing role of government in the economy. The authors point out that the demise of limited government is not free. There is systematic evidence that a higher level of government expenditure has a debilitating effect on growth. The link between government spending and economic growth during the 1960-96 period is negative.

The link between government spending and economic growth merits renewed attention in the post-financial crisis years. The financial crisis has renewed interest in Professor Keynes and the role of government as the ultimate stabilizing force. Of particular relevance is the contention that Keynesian Multipliers—the effect of government spending on GDP growth—are positive and more than proportional to the amount of the government purchases. Especially notable is a 2009 study done by Professor Christiana Romer, Chair of the President's Council of Economic Advisors, and Jared Bernstein, Chief Economist of the Office of the Vice-President. The Romer-Bernstein estimates provided a justification for the first U.S. stimulus package in response to the crisis. The Romer-Bernstein study is not without its critics; not the least of which is the assumption that interest rates would remain inordinately low to accommodate the government spending. The critics provide compelling estimates of multipliers that are very different from those of Romer-Bernstein (Cogan et al. 2010; Ramey 2011; Taylor 2011)

In the spirit of Gwartney et al., we raise a note of skepticism. Can we expect government to generate net benefits from government spending based on the collective record for industrialized countries of the world? Essentially, we offer an update of the Gwartney et al. paper. We use data on growth of government and GDP growth in the OECD countries. Our results show that when we compare countries, there is a negative link between government spending and economic growth. Moreover, when we look within countries, there is also a negative connection between periods of economic growth and government spending. Periods of high government spending are linked with low economic growth and vice versa. To the extent growth solves problems—e.g. unemployment—government spending has perverse effects on the economy.

2. Growth of Government

The growth of government during 1960-96, highlighted by Gwartney et al., continues unabated. Table 1 illustrates this continuing trend of larger government. The table lists total government spending as a share of GDP during 1960-2011 for 23 OECD countries that were members for the entire period. The total government spending figures are the sum of federal, state, and local government spending. All government transfer payments are included in these data.

TABLE 1
The Size of Government in OECD Countries, 1960-2011

Total Government Outlays as a Percentage of GDP

Country	1960	1970	1980	1990	2000	2010	2011	Increase 1960-2011
Australia	22.1	24.5	33.8	33.1	33.9	36.4	33.8	11.7
Austria	36.3	39.5	49.2	51.5	51.9	52.6	52.0	15.7
Belgium	30.7	42.7	55.9	52.3	49.1	52.9	52.3	21.6
Canada	28.9	36.0	41.6	48.8	41.1	44.1	42.3	13.4
Denmark	24.8	39.6	53.4	55.4	53.7	58.5	61.0	36.2
Finland	26.4	31.0	40.4	48.2	48.4	55.3	52.7	26.3
France	34.6	37.6	46.0	49.6	51.6	56.7	55.9	21.3
Germany	32.7	38.4	46.9	43.6	45.1	48.0	45.3	12.6
Greece	17.4	22.4	30.5	48.8	47.1	50.2	49.2	31.8
Iceland	28.2	29.8	33.0	38.9	41.9	51.5	45.1	16.9
Ireland	29.5	38.9	50.8	42.4	31.2	66.8	44.1	14.6
Italy	28.5	32.3	40.6	52.6	45.9	50.3	49.8	21.3
Japan	18.4	20.2	33.5	31.6	39.0	40.4	42.1	23.7
Luxembourg	29.3	32.2	54.8	37.7	37.6	42.5	43.0	13.7
Netherlands	33.7	44.8	55.8	54.9	44.1	51.2	50.4	16.7
New Zealand	32.2	31.9	46.4	52.7	38.3	43.1	43.5	11.3
Norway	32.0	38.9	46.1	54.0	42.3	46.1	44.5	12.5
Portugal	17.0	21.6	32.3	38.6	41.1	51.3	46.9	29.9
Spain	13.7	23.3	33.9	42.8	39.2	45.6	41.0	27.3
Sweden	32.6	43.0	62.7	59.8	55.1	52.9	52.7	20.1
Switzerland[a]	17.2	21.3	29.3	30.3	35.1	34.2	34.2	17.0
United Kingdom	32.6	41.8	45.9	41.5	36.5	50.6	48.9	16.3
United States	28.3	32.3	34.3	37.2	33.9	42.5	41.1	12.8
Average	27.3	33.2	43.3	45.5	42.7	48.9	46.6	19.3

[a] The data for Switzerland are for current government expenditures only

Sources: OECD iLibrary (accessed May 10, 2012); *OECD Historical Statistics* (1999, 2001); *OECD Economic Outlook* (June 1981, December 1992); Statistics New Zealand (accessed May 10, 2012 for 1960-1980 New Zealand Data).

The table clearly indicates that the size of government has increased substantially since 1960. The average government outlay for all countries in 1960 was 27.3 percent of GDP. By 2011 the average had increased to 46.6 percent. Austria, the country with the largest government in 1960, would be considered one of the smallest governments today. Its total government

spending of 36.3 percent of GDP in 1960 is well below the OECD average in 2011. Today, only two countries, Australia and Switzerland, have less total government spending as a share of GDP than Austria in 1960.

3. Core Expenditures

Theory indicates there are several growth enhancing functions of government. These functions are grouped into two general categories: the protection of persons and their property and the provision of a limited set of goods. Aspects of the first category, like the provision of police, courts, and a system of justice, are essential for the protection of private property rights. In turn, these property rights are necessary for economic growth. Private property rights provide the incentive to invest in productive projects with returns that do not materialize for some time. These investments are an important component of economic growth. Police and a legal system deter and prosecute violations of property rights within a country while national defense protects these rights from external threats.

The provision of a stable currency could fall under either category of the functions of government. Regardless of the particular category, sound money is vitally important for economic growth. It facilitates the ability of individuals to save and plan for the future and has a profound affect on contracting, which is important for business in any economy. The point of a contract is to reduce uncertainty. Businesses use contracts as a credible commitment device to ensure that future goods and services are delivered when needed. An unstable currency reduces the benefits of contracting by creating uncertainty over the means and method of payment. In contrast, a stable currency reduces uncertainty, which facilitates contracts and future investments.

The provision of a limited set of goods is the second category of the growth enhancing functions of government. These goods include education, highways, and various aspects of telecommunications infrastructure. An educated population is more productive and better able to engage productively in a market economy. Highways and communications infrastructure allow for the easy transport of goods and services over long distances. These projects are capital intensive and may be prohibitively expensive to build for the businesses that utilize them.

The protection of property rights and the provision of these goods are largely provided by government. This does not imply, however, that they are only to be provided by government. Much of our law enforcement today is either provided or supported by private police and security. Many roads and highways are private toll roads. The vast majority of our telecommunications infrastructure is privately provided. And the best schools and universities in the U.S. are often private. While these functions can be provided privately, they are still considered the core functions of government. Moreover, economic theory indicates that expenditures in these areas are growth enhancing.

Table 2 lists these core functions of government for the U.S. As this table illustrates, the increase in total government spending as a share of the U.S. economy, shown in the previous table, is not due to expenditures in these core areas. The table lists U.S. federal, state, and local government expenditures for six categories during 1960-2010. Spending on police, corrections, and the judicial system, has increased from 0.64 percent of GDP in 1960 to 1.62 percent in 2010. However, national security related expenses decreased from 9.71 percent of GDP to 5.08 percent in 2010. Expenditures on education are now higher than national defense. Expenditures on physical infrastructure – highways, sanitation, and environmental protection – and the Federal Reserve are small and have only changed modestly since 1960. The last row of Table 2 contains

the total expenditures for the core functions of government. Rather than increase along with overall government spending, expenditures on these functions have decreased since 1960. In 2010, total core expenditures amounted to 14.33 percent of GDP, slightly lower than the total of 16.22 percent in 1960. Thus, the data in Table 1 and Table 2 indicate that the substantial increase in the size of government in the U.S. is not due to expenditures in the core areas. Total government spending in 2010 was 42.5 percent of GDP, which is nearly three times the amount needed to provide for the core functions of government.

TABLE 2

U.S. Federal, State, and Local Government Expenditures for Select Budget Categories as a Percentage of GDP, 1960-2010

Budget Categories	1960	1970	1980	1990	2000	2010
Protection of Persons and Property						
Police Protection	0.39	0.49	0.54[b]	0.55	0.69	0.74[c]
Corrections	0.14	0.16	0.24[b]	0.43	0.53	0.53[c]
Judicial and Other Criminal Justice System Activities	0.11[a]	0.17	0.24[b]	0.30	0.34	0.35[c]
Subtotal	0.64	0.82	1.02[b]	1.28	1.56	1.62[c]
National Security						
National Defense	9.14	7.87	4.81	5.16	2.96	4.77
International Affairs	0.57	0.41	0.46	0.24	0.17	0.31
Subtotal	9.71	8.28	5.27	5.40	3.13	5.08
Education						
Elementary and Secondary Education	2.88	3.62	3.34	3.52	3.93	4.38[d]
Higher Education	0.61	1.06	1.22	1.28	1.57	1.94[d]
Subtotal	3.49	4.68	4.56	4.80	5.50	6.32[d]
Highways	1.82	1.61	1.21	1.08	1.23	1.27[e]
Sewage Sanitation and Environmental Protection	0.53	0.60	0.97	0.80	-[f]	-[f]
Federal Reserve System: Expenses	0.03	0.03	0.03	0.02	0.02	0.04
Total	16.22	16.02	13.06	13.38	11.44	14.33

[a] Legal representation and other related activities were not counted toward criminal justice system expenditures prior to 1969.

[b] These percentages were calculated from 1979 expenditures and GDP because detailed data were not collected in 1980.

[c] These percentages are for 2007, the latest data available.

[d] These percentages are for 2009, the latest data available.

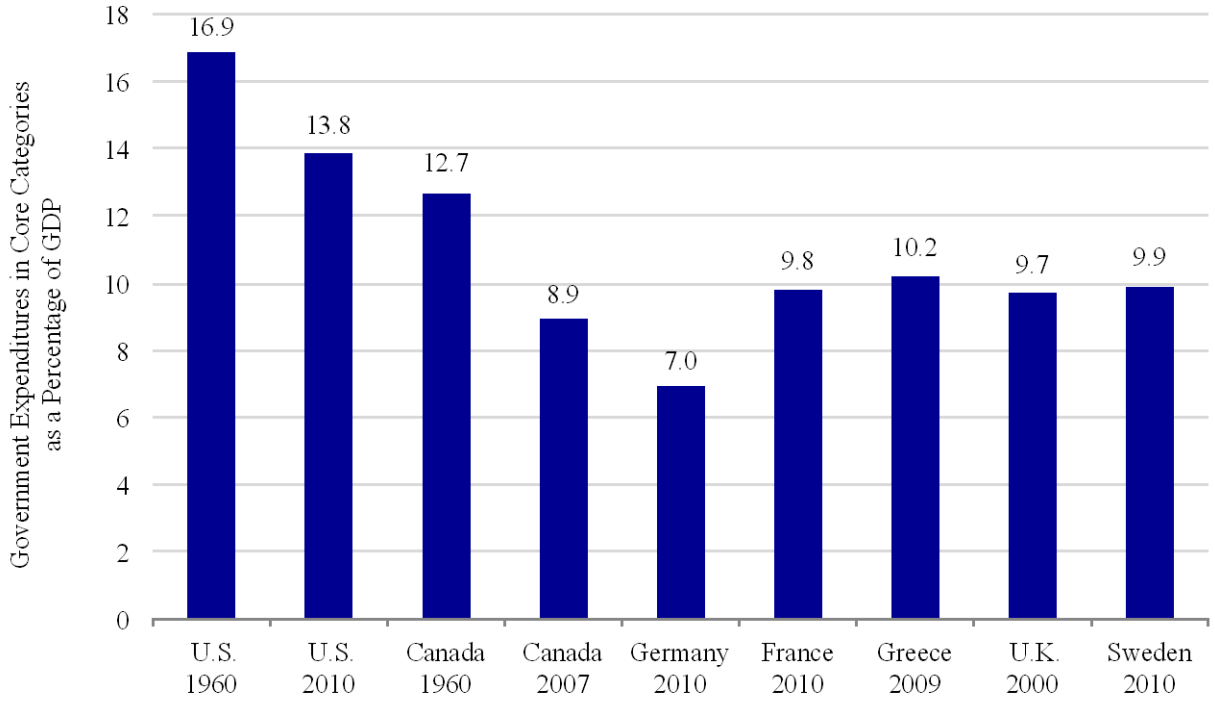
[e] These percentages are for 2008, the latest data available.

[f] These data are no longer available.

Sources: Bureau of the Census, *Statistical Abstract of the United States* (various issues); *Board of Governors of the Federal Reserve System: 2010 Annual Report*; *Economic Report of the President* (2010 and 2012); Bureau of Justice Statistics; Bureau of Economic Analysis.

Figure 1 suggests that the U.S. is not the only OECD country whose increase in the size of government is not due to expenditures in the core areas. In fact, the only country with core expenditures above 16 percent of GDP is the U.S. in 1960. Expenditures on the core functions of government are below 15 percent for every other OECD country. Even Greece and Sweden spend less on the core functions of government as a share of GDP than the U.S. It is clear that the growth in the size of government since 1960 is not due to expenditures in the core areas. In other words, the growth in government has not been in areas that economic theory predicts would enhance growth.

FIGURE 1
Core Government Expenditures as a Percentage of GDP



Notes: The core categories are: (1) public order and safety, (2) national defense, (3) education, and (4) transportation and communication. Data for expenditures on the operation of a central bank, sanitation, and environmental protection were not available for all countries and are not included here. However, as Table 2 illustrates, these expenses would increase government expenditures by roughly 1 percent of GDP.

4. Increase in Size of Government Beyond Core Functions

The previous section highlighted government expenditures that are growth enhancing, as indicated by economic theory. Theory also indicates that significant government spending beyond these core areas can lead to reduced rates of economic growth. First, the substantial increase in government expenditures highlighted in Table 1 necessitates larger taxes, increased borrowing, or both. As taxes increase, the excess burden of taxation increases by a larger amount. Increased borrowing also translates into higher future taxes. This is because previous debt must be paid off, and the interest costs of the debt increase along with the amount borrowed. Moreover, higher taxes marginally reduce the incentive to work and earn additional income. Time and resources are also used to avoid or find ways around high taxes, which implies that the excess burden of taxation is even larger than that predicted by static analysis.

Second, the type of system in which political decisions are made and evaluated is different from that of the market. In a market system, profits and losses help direct resources toward productive uses, but no such mechanism exists in the political arena. As the size of government increases, more economic decisions are made politically. Even if one assumes that people in politics and government have good intentions, the incentives in the political arena do not direct resources toward productive uses. Often, resources are directed toward wasteful or unproductive projects. The recent bankruptcies of many high profile firms that received federal loans help to illustrate this point. As government grows, the market mechanism that helps direct resources toward productive uses diminishes in use, resulting in slower economic growth.

Third, government expenditures, beyond what are needed for the core functions of government, lead to increased rent seeking. As the government becomes more involved in transfer payments and subsidies to various groups, these groups in turn spend more time and resources seeking these funds. Instead of competing in the market by creating better products and services, firms turn to the political arena in search of subsidies, loans, and favorable legislation. Market competition leads to a growing economic pie. However, when firms engage in rent seeking they expend resources on a fixed pie that only exists because it was taxed from individuals. In short, rent seeking is unproductive and inhibits growth because it entails using resources to pursue rents that were taken from the productive sector of the economy.

Fourth, the opportunity for entrepreneurs to make money in the political arena is larger when government is larger. Schumpeter argued that entrepreneurs are vital for economic growth, and Israel Kirzner (1973) elaborated that the entrepreneur is someone who identifies and acts upon profit opportunities. In the market, entrepreneurial activity leads to economic growth through Schumpeter's notion of creative destruction. Consumers have benefited immensely from the entrepreneurship of Steve Jobs, Bill Gates, Henry Ford, Thomas Edison, and many others. However, the increased rent seeking opportunities associated with larger government implies that some entrepreneurs will seek riches in the political arena rather than the market. Baumol (1990) described this type of entrepreneurship as either unproductive or destructive. Instead of discovering new ways to serve the consumer, entrepreneurs in the political arena discover new ways to acquire taxpayer dollars.

In contrast to this view, some argue that increased government spending leads to economic growth through a fiscal multiplier (Romer and Bernstein 2009). According to this view, government spending becomes income for some consumers who then spend this income providing income for the next set of consumers. Thus, there is a multiplier effect of government spending if the total subsequent consumer spending is larger than the initial government spending. During the Great Depression, Keynes popularized this notion by arguing that it did not matter how the money was spent, as long as the money was spent. However, the data presented in the following section is inconsistent with this view as higher government spending is associated with lower growth rates.

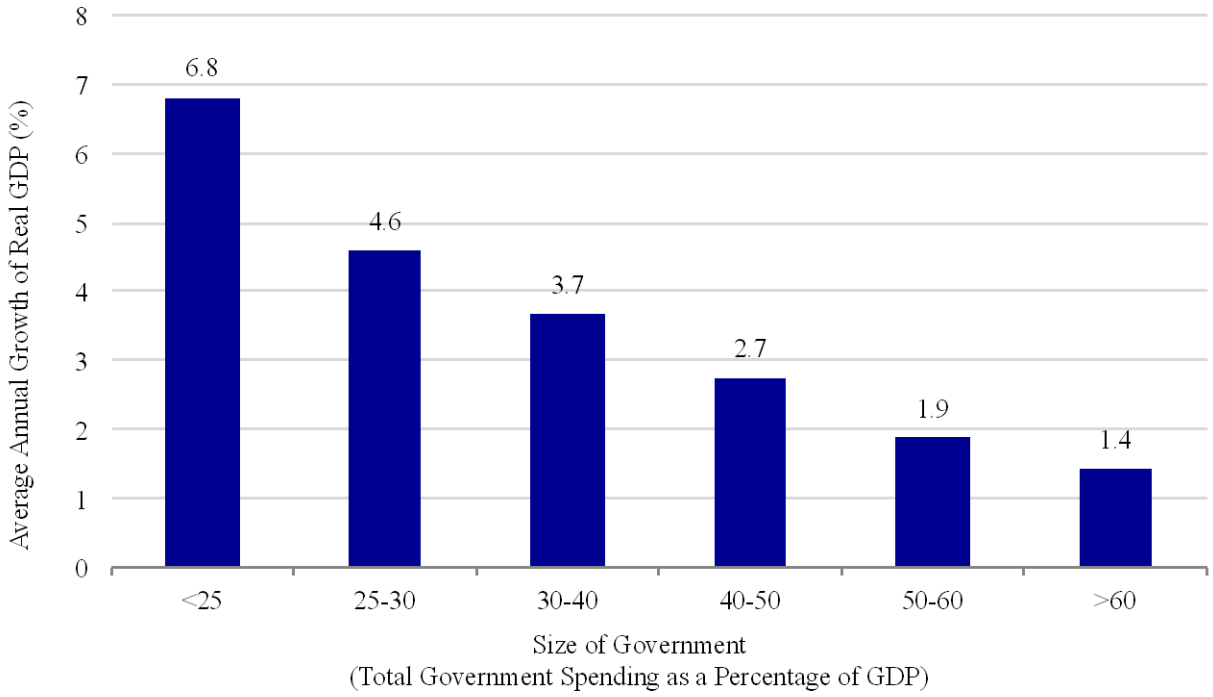
5. The Size of Government and Growth

In this section we compare the size of government with annual growth rates for the 23 OECD countries listed in Table 1 during 1960-2010. While the size of government of these countries varies during the period, many other economic determinants are similar. Each of these countries has a well functioning legal system that enforces private property rights and contracts. They also have a stable monetary policy, especially during the later period, 1980-2010, exhibiting exceptionally low levels of inflation. Disparities in marginal tax rates between

countries have also fallen. Trade barriers are relatively low and each country is heavily involved in international trade. Despite these similarities, there are large differences in the size of government during the period, even though there was an overall trend toward larger government. By comparing these differences with corresponding growth rates we can evaluate the relationship between the size of government and growth.

Figure 2 compares the size of government and annual real GDP growth rates for the period 1960-2010. Total government expenditures as a percentage of GDP is paired with the corresponding real annual growth rate for each country and year. This set of 1,173 observational pairs (51 time periods for 23 countries) is then sorted and grouped based on the size of government. The growth rates for each group are then averaged resulting in the values in the figure.

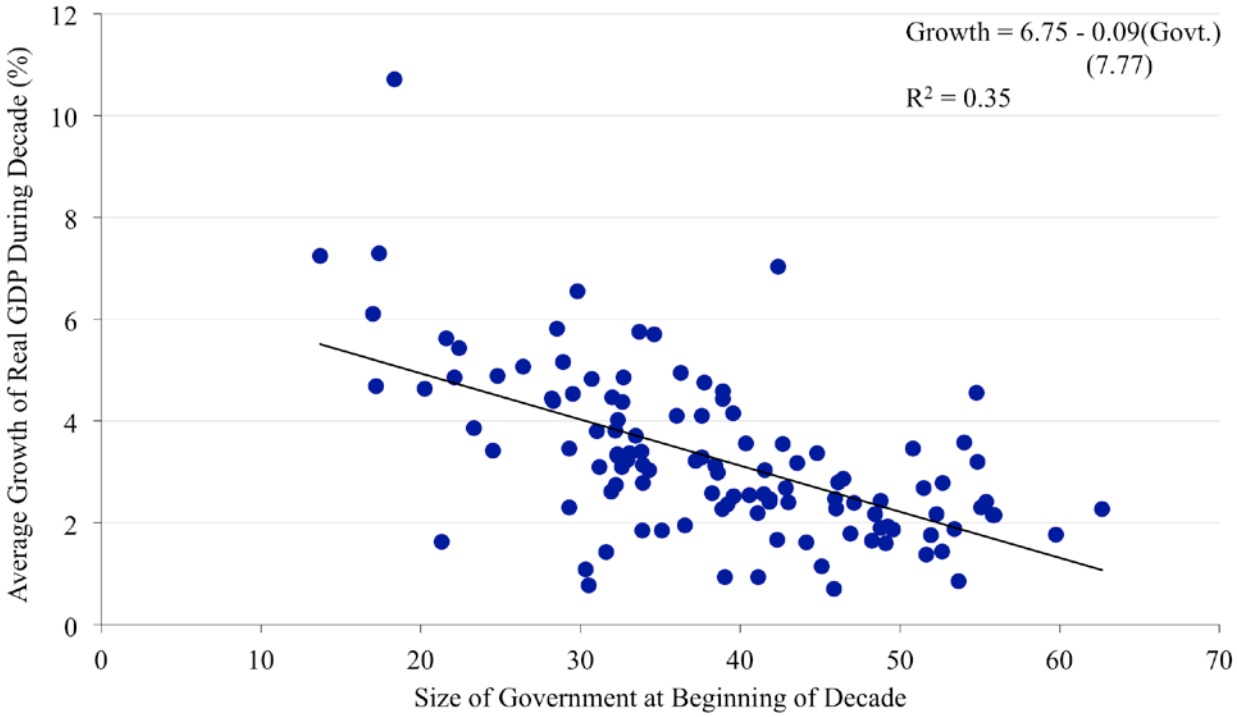
FIGURE 2
Size of Government and the Annual Growth of Real GDP for OECD countries, 1960-2010



Countries where total government spending was less than 25 percent of GDP experienced an average annual real GDP growth rate of 6.8 percent. As the size of government increases the annual growth rate falls. Countries at the opposite end of the spectrum, those with governments larger than 60 percent of GDP, had an average annual growth rate of 1.4 percent. This paltry growth rate may explain why countries in this large government category do not remain there for long. Ireland is the only country in this category since 2000 while Belgium, Denmark, Finland, and Sweden had governments this large for a period of time during the 1980s and 1990s.

Figure 3 contains a scatter plot examining the relationship between the size of government and growth. While the previous figure contained data on annual growth, this figure examines the relationship between the size of government at the start of a decade and the corresponding average annual growth rate of real GDP during the decade. There are 23 countries and 5 decades resulting in 115 observations. As the linear regression line shows, there is a negative relationship between the size of government at the beginning of the decade and the average growth rate during the decade. The slope of the line indicates that a 10 percentage point higher size of government at the beginning of the period corresponds to a reduction in the average annual growth rate during the decade of 0.9 percentage points. This may appear to be a small reduction, however, one should keep in mind that this implies an average growth rate that is 0.9 percentage points lower for *every year* during the decade. This is a non-trivial reduction in growth.

FIGURE 3
Higher Government Spending Reduces Economic Growth among OECD Countries



Note: These data indicate that a 10 percentage point increase in government expenditures as a share of GDP reduces the annual rate of growth by 0.9 percentage points.

While the first table indicated that all 23 countries have increased the size of government, some have increased more than others. Table 3 lists the five countries with the smallest increase in government size during 1960-2010 and the five countries with the largest increase. Along with the size of government, the table displays the corresponding annual growth rates of real GDP for the first and last five-year periods. Not surprisingly, all of the countries have lower growth rates at the end of the period due to the recent recession. However, the countries with smaller governments had a much smaller reduction in growth rates. Moreover, four of the five countries with the largest increase in the size of government–Portugal, Ireland, Spain, and Greece–are facing a massive debt crisis, suggesting that slower growth is not the only consequence of larger government.

TABLE 3

The Growth Rate of Real GDP in the 2000s Compared to 1960-65, According to Increases in the Size of Government between 1960 and 2010: OECD Countries

	Government Spending as a Percentage of GDP			Growth Rate of Real GDP		
	1960	2010	Change	1960-65	2005-10	Change
Countries with Smallest Increases in Size of Government						
New Zealand	32.2	43.1	10.9	4.7	1.7	-3.0
Luxembourg	29.3	42.5	13.2	3.2	2.5	-0.7
Norway	32.0	46.1	14.1	4.6	1.1	-3.5
United States	28.3	42.5	14.2	4.5	1.2	-3.3
Australia	22.1	36.4	14.3	4.6	2.9	-1.8
Average	28.8	42.1	13.3	4.3	1.9	-2.5
Countries with Largest Increases in Size of Government						
Spain	13.7	45.6	31.9	7.6	1.4	-6.2
Greece	17.4	50.2	32.8	7.5	0.6	-6.8
Denmark	24.8	58.5	33.7	5.4	0.4	-5.1
Portugal	17.0	51.3	34.3	6.4	0.5	-5.9
Ireland	29.5	66.8	37.3	4.2	0.9	-3.3
Average	20.5	54.5	34.0	6.2	0.8	-5.4
All OECD Countries Average	27.3	48.9	21.6	5.5	1.3	-4.3

Sources: Derived from World Bank, *World Development Indicators*, *OECD Economic Outlook*, and the IMF *International Financial Statistics*.

6. Case Study of Reductions in the Size of Government

Amidst the overall trend toward larger government, several OECD countries made substantial reductions in total government spending. Table 4 lists the size of government and growth rates for Canada, Ireland, and Sweden for various periods during 1960-2010. Beginning in the mid 1970s, Canadian government spending increased rapidly. By 1992 total government expenditures stood at 53.3 percent of their economy. Not surprisingly, net federal debt increased as well, reaching a peak of 70 percent in 1995. In response to the large accumulated debt and a downgraded credit rating, Canada embarked on a period of reduced government spending. This reduction took place at both the federal and provincial level. Total government spending fell from its 1992 high down to 39.3 percent of GDP by 2005. Figure 4 illustrates how the Canadian economy responded to the reduction in the size of government. The average annual growth rate of real GDP during the period of shrinking government was 3.3 percent, higher than the 2.6 percent growth rate during the previous period. Moreover, net federal debt fell to 31 percent by 2005, a substantial decrease from the high of 70 percent in 1995.[1]

Ireland makes for an interesting case. It was included in Gwartney et al. as an example of a country that achieved reductions in the size of government. However, since 2000 the country has changed course. Between 1960 and 1986 the size of government in Ireland increased substantially. While total government spending was 29.5 percent of GDP in 1960 it increased to 46.6 percent by 1977 and continued to a peak of 54.6 percent in 1986. Economic growth in Ireland during the early period was 4.5 percent, but decreased to an average of 2.9 percent during 1978-1986. However, Ireland began to scale back the scope of government. By 2000, total government spending was 31.2 percent of GDP, a reduction of 23.4 percentage points. As figure 4 illustrates, the growth rate during this period of shrinking government was an explosive 6.8 percent. Beginning in 2000, however, Ireland reversed course and began to move in the direction of a larger government. By 2010, total government spending was 66.8 percent of Ireland's entire economy, a stunning increase over such a short period of time. The average growth rate of 2.5 percent during this period is the lowest rate for Ireland over the period 1960-2010.

Sweden is often considered the poster child for large government. However, this overlooks substantial changes that occurred after 1993. Between 1960 and 1982 Sweden did indeed have substantial growth in its government. Total government spending increased from 32.6 percent of the economy to 65 percent. This trend continued and by 1993, total government spending accounted for 70.5 percent of economic output, the largest of any of the 23 OECD countries during the last half-century. While the average growth rate for the earlier period was 3.1 percent, it declined substantially to 1.5 percent during the 1983-93 period. Beginning in 1993, Sweden reduced total government spending. By 2007, total spending was 51 percent of GDP. While this value is still large by OECD standards, (the OECD average in 2010 was 48.9 percent), it represents a substantial reduction from the peak in the mid 1990s. The 3.3 percent average growth rate for this latter period is higher than the growth rates for the previous periods. Thus, even Sweden reduced total government spending and achieved higher growth rates.

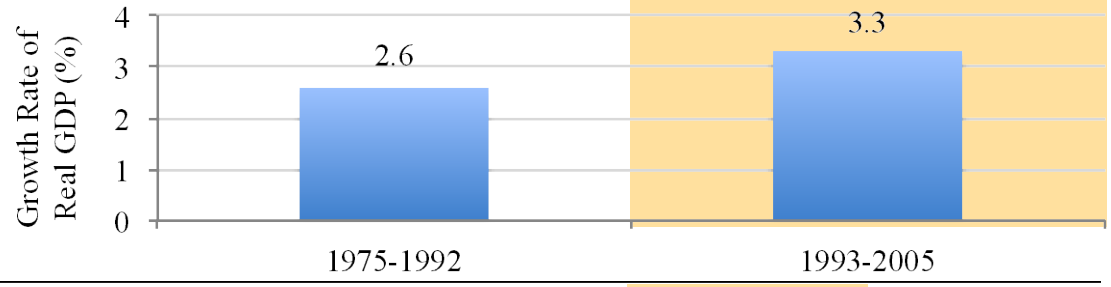
[1] These data are from Statistics Canada (http://www.statcan.gc.ca/start-debut-eng.html).

FIGURE 4

Comparing Periods of Expansion in the Size of Government with Periods of Shrinkage: Canada, Ireland, and Sweden

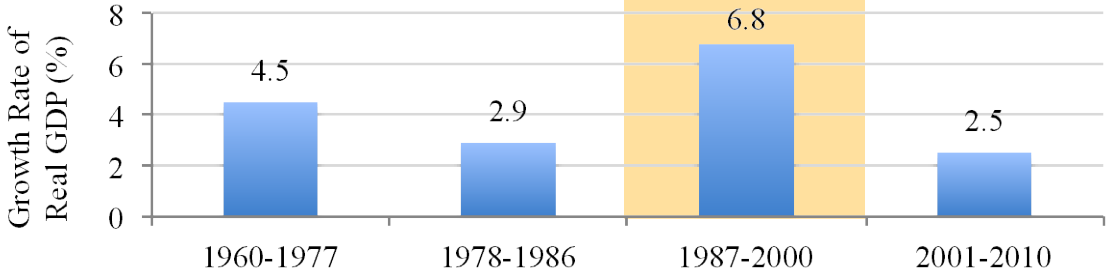
Canada

	Period of Expanding Government		Period of Shrinking Government	
Gov. Outlays as a	1975	1992	1992	2005
Share of GDP	41.1	53.3	53.3	39.3
Increase/Decrease	+12.2		-14.0	



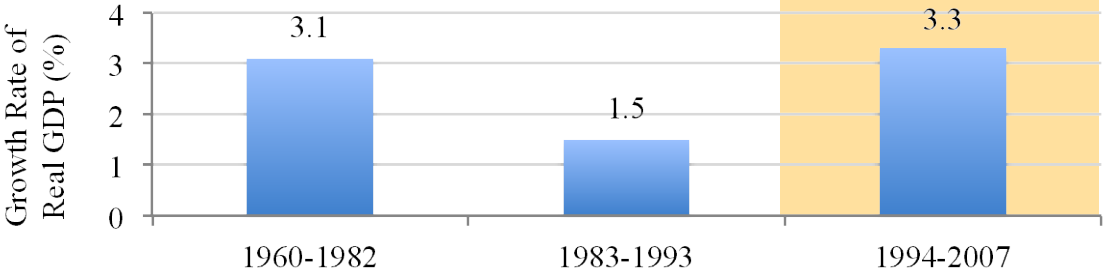
Ireland

	Periods of Expanding Government				Period of Shrinking Government		Period of Expanding Government	
Gov. Outlays as a	1960	– 1977	1977	– 1986	1986	– 2000	2000	– 2010
Share of GDP	29.5	46.6	46.6	54.6	54.6	31.2	31.2	66.8
Increase/Decrease	+17.1		+8.0		-23.4		+35.6	



Sweden

	Periods of Expanding Government				Period of Shrinking Government	
Gov. Outlays as a	1960	— 1982	1982	— 1993	1993	— 2007
Share of GDP	32.6	65.0	65.0	70.5	70.5	51.0
Increase/Decrease	+32.4		+5.5		-19.5	



7. Conclusion

When we examine the role of government in the industrialized nations of the world over the last half century, we find that government expenditures have grown and they have largely grown outside of the core functions of government. We also find that, contrary to the casual association of government spending with the common view of the Keynesian legacy, government spending is not free and it does not guarantee prosperity. In fact, the record shows that government spending is generally associated with relative stagnation, not economic growth. We find a uniform pattern of higher spending linked with lower growth rates. It is generally the case that government spending is costly in terms of economic growth.

When we examine case studies of countries that moved from high government expenditure levels to lower levels—from fiscal profligacy to fiscal restraint—the record is also clear. Restraint led to higher growth rates. Canada, Ireland, and Sweden moved from relatively higher spending levels to lower spending levels and enhanced growth. Ireland has been somewhat schizophrenic, having periods of rising, then falling, then rising size of government, with predictable stop-start-stop economic performance. In short, Ireland fits the general rule quite well.

Our analysis does not calculate an optimal scope of government spending. We do not explicitly address taxes or the nuanced details of expenditure patterns. Nevertheless, government spending is not a *deus ex machina* for economic health. Indeed, government spending has the opposite effect. The recent record of U.S. stimulus packages is not an anomaly but a general pattern that is repeated in nearly all the industrialized countries. The data provide a compelling case to move away from fiscal profligacy toward fiscal restraint.

References

Baumol, William J. 1990. “Entrepreneurship: Productive, Unproductive, and Destructive.” *Journal of Political Economy* 98 (5): 893-921.

Cogan, John F., Tobias Cwik, John B. Taylor, and Volker Wieland. 2010. “New Keynesian versus Old Keynesian Government Spending Multipliers.” *Journal of Economic Dynamics & Control* 34 (3): 281-295.

Gwartney, James D., Randall Holcombe, and Robert Lawson. 1998. “The Scope of Government and the Wealth of Nations.” *Cato Journal* 18 (2):163-90.

Kirzner, Israel M. 1973. *Competition and Entrepreneurship*. Chicago: University of Chicago Press.

Ramey, Valerie A. 2011. “Can Government Purchases Stimulate the Economy?” *Journal of Economic Literature* 49 (3): 673-685.

Romer, Christina and Jared Bernstein. 2009. “The Job Impact of the American Recovery and Reinvestment Plan.” January 9, 2009.

Taylor, John B. 2011. “An Empirical Analysis of the Revival of Fiscal Activism in the 2000s.” *Journal of Economic Literature* 49 (3): 686-702.

The *Hastert Center Public Policy Series* aims to disseminate knowledge on the functioning of market economies, representative democracies, limited government, and the redemptive aspects of the Christian worldview. As a non-partisan institution, the Center is pleased to facilitate discussion from a variety of political perspectives on the issues of the day. Views expressed are those of the individual authors.

Joseph S. Connors is a visiting assistant professor in the political science department at Duke University. Connors holds a bachelor's degree in Electrical Engineering from Santa Clara University and a M.A. and Ph.D. in economics from Florida State University. While at Florida State he received the James H. Gapinski award and was awarded a BB&T Dissertation Fellowship. Connors was also a founding member of the Robotics Systems Laboratory at Santa Clara University and worked in the San Francisco Bay Area as an electrical engineer before becoming an economist.

Professor Connors's research focuses on economic and political institutions. Specifically, how institutions affect growth and poverty in the developing world and how these institutions evolve and change. Additional research topics include the Great Depression and the 2008 financial crisis. He is also currently involved with research on income mobility in the U.S. and Europe.

Seth W. Norton is currently the Jean and E. Floyd Kvamme Professor of Political Economy and Director of the J. Dennis Hastert Center for Economics, Government, and Public Policy at Wheaton College. Norton holds a B.A. degree in history from Northwestern University, a M.A. in public policy from the University of Wisconsin, a M.B.A. in finance and industrial relations, and a Ph.D. in economics from the University of Chicago. Professor Norton has held teaching positions at Triton College, Washington University, Illinois State University, and the University of Michigan. Norton has a broad teaching background, including American government, economics, finance, marketing and business strategy. At Washington University, Norton was the recipient of the Burlington Northern Foundation Award for distinguished achievement in teaching.

Professor Norton's research record is also diverse. He has published widely in nearly every area of business and economics as well as legal studies and public policy. Norton has made important research contributions on government regulation, franchising, telecommunications, and world poverty. Norton was a member of the executive board of the Western Economics Association International from 2008-2011 and served as its secretary-treasurer from 2009-2011. Professor Norton is currently studying the links between economic institutions and poverty, public policies towards business and the economy, government regulation, property rights, and the role of culture in framing economic institutions.