



## An Economic Policy Solution for 2010

by John Hendrickson

President Barack Obama and Congress will be faced with a continuing serious economic situation as the nation struggles with the recession. Unemployment is still at 10 percent, while the federal government, as well as many state and local governments, are in a major fiscal crisis. In order to bring back economic recovery and employment, policy makers must look to solutions that are based on limited government and economic liberty.

The national debt currently stands at \$12.1 trillion, and the federal government's deficit for this fiscal year will be at least \$1.4 trillion. The looming entitlement crisis in the programs of Social Security, Medicare, and Medicaid also threatens the financial security of the nation. "Spending on the three main entitlement programs is expected to roughly double from \$1.27 trillion in FY 08 to \$2.42 trillion by FY18."<sup>1</sup> The big three entitlements will consume the federal budget if they are not reformed. In addition "the unfunded promises of the federal government are equal to a mortgage on future generations of \$57 trillion, or \$184,000 for every man, woman, and child in the U.S."<sup>2</sup>

Although President Obama and the Democrat Congress are not entirely responsible for the massive increase in spending — Republicans during the administration of President George W. Bush also have to assume responsibility — it has been the policies of the Obama administration that have resulted in the elephantine deficit and debt. The programs responsible for the increase in the deficit and debt include the \$787 billion stimulus bill, the numerous financial and automotive bailouts, and the cash for clunkers program, among other reckless Congressional spending bills. Congress is working on enacting a health-care reform bill that will not only add an additional entitlement program to the federal budget, but is estimated to cost over \$2 trillion.

President Obama and Democrats in Congress are also considering another stimulus bill to focus on infrastructure projects in an attempt to solve unemployment, and Cap and Trade legislation to pursue environmental reform. All of this, including the push for additional regulation of the private sector, has been part of the Democrats' objective to "change" and renew America through a new phase of progressive reform. Robert Higgs, Senior Fellow in Political Economy for the Independence Institute, wrote that "under modern ideological conditions, a national emergency produces a virtual free-for-all of policies, programs, and plans that expand the government's power in new directions and strengthen it where it previously existed."<sup>3</sup> In other words, a political or economic crisis allows government to grow and encroach upon economic liberty.

The current economic and financial crisis the nation is battling will not be solved through additional government spending, programs, or regulations. The solution is returning toward constitutional, limited-government policies that promote economic liberty. As Congressman Ron Paul (R-TX) recently wrote in regard to the current economic policies of Keynesianism:

You cannot spend your way out of a recession. You cannot regulate the economy into oblivion and expect it to function. You cannot tax people and businesses to the point of near slavery and expect them to keep producing. You cannot create an abundance of money out of thin air without making all that paper worthless. The government cannot make up for rising unemployment by just hiring all of the out of work people to be bureaucrats or send them unemployment checks forever.<sup>4</sup>

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Congress must take responsibility and begin to reduce spending and reform entitlement programs. The CATO Institute has proposed that federal spending should be cut “from 21 percent to 16 percent of gross domestic product over ten years.” Senator Barry Goldwater advised that “the government must begin to withdraw from a whole series of programs that are outside its constitutional mandate...”<sup>5</sup> Goldwater recommended “a 10 percent spending reduction each year in all of the fields in which federal participation is undesirable.”<sup>6</sup> The CATO Institute has launched a website *Downsizing the Federal Government*, which is providing policymakers with ideas on how to reduce the size and scope of the federal government.

Policymakers should also consider a constitutional amendment to require Congress to balance the budget. Governor Tim Pawlenty (R-MN) has called for spending limitations on both the federal government and his home state. A balanced-budget amendment would force Congress to balance the budget and end deficit spending with exceptions during war or national emergencies. Goldwater argued that “spending cuts must come before tax cuts,” because if taxes are reduced before spending then “we will court deficit spending and the inflationary effects that invariably follow.”<sup>8</sup>

Congress must also work to enact significant tax reform. The Bush tax cuts, which are set to expire, should be made permanent, and both income and corporate taxes should be reduced to encourage business growth. During the economic depression of 1920-1921 President Warren G. Harding, President Calvin Coolidge, and Secretary of the Treasury Andrew Mellon followed a policy of reducing expenditures and taxes, which resulted in an economic recovery and a return to constitutional government which marked the Coolidge prosperity of the 1920s. President Ronald Reagan in the 1980s followed a similar policy, which resulted in the economic expansion toward the close of the 20th century.

Tax reform, along with reducing regulations on businesses, will encourage private sector growth and entrepreneurship which in turn will foster job creation. Economic historian Burton Folsom noted that “the key issue here is economic philosophy.”<sup>9</sup> President Obama is clearly following a progressive path of Keynesianism and government growth to provide economic security that follows in the footsteps of the Progressive movement, Roosevelt’s New Deal, and Lyndon Johnson’s Great Society.

“By contrast, Ronald Reagan and Calvin Coolidge believed that cutting tax rates and reducing federal intervention was the recipe for economic recovery, and both saw economic recoveries during their first terms of their presidencies,” noted Folsom.<sup>10</sup> The economy is under threat from not only the recession, but also the possibility of inflation, the devaluing of the dollar, and the question of foreign nations — especially China — holding onto portions of our debt. In order to bring economic recovery and stability, our policymakers must reduce government spending, eliminate programs that are not in line with the Constitution, cut taxes, and reform entitlements.

Endnotes:

<sup>1</sup>Chris Edwards, “Cutting federal spending,” *CATO Handbook for Policymakers*, 7th ed., Cato Institute, Washington, D.C., 2008, p. 49.

<sup>2</sup>Stuart M. Butler, “Bipartisan entitlement commission needed to control spending and debt,” WebMemo, No. 2698, The Heritage Foundation, Washington, D.C., November 16, 2009.

<sup>3</sup>Robert Higgs, “The political economy of crisis opportunism,” *Mercatus Policy Series*, Policy Primer No. 11, Mercatus Center, George Mason University, October 2009.

<sup>4</sup>Ron Paul, “Keynesianism delivers a decade of zero,” *Texas Straight Talk: A weekly column*, January 4, 2010, <<http://www.house.gov/paul/>> (January 7, 2010).

<sup>5</sup>Edwards.

<sup>6</sup>Barry Goldwater, *The Conscience of a Conservative*, Victor Publishing Company, Shepherdsville, Kentucky, 1960, p. 66.

<sup>7</sup>Ibid.

<sup>8</sup>Goldwater, p. 62-63.

<sup>9</sup>Burton W. Folsom, Jr. “Any economic recovery will likely be ephemeral,” Burt Folsom.com, October 30, 2009, <<http://www.Burtfolsom.com/?p=469>> (January 8, 2009).

<sup>10</sup>Ibid.

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