



## The Need for Economy in Government

by John Hendrickson

“The present administration is committed to a period of economy in government... There is not a menace in the world today like that of growing public indebtedness and mounting public expenditures... We want to reverse things,” stated President Warren G. Harding before a meeting of the Business Organization of the Government.<sup>1</sup> The purpose of the meeting was to address the seriousness and indeed the need of the Harding administration to cut government spending and return the federal government back to its traditional limited bounds. President Harding’s lead on pursuing economy in government was Charles G. Dawes, who served as the nation’s first Director of the Budget under the Budget and Accounting Act of 1921. Dawes, who later served as Vice President under President Calvin Coolidge, understood not only the necessity of reducing government spending, but also the difficulty of cutting spending, which he described as using a “toothpick with which to tunnel Pike’s Peak.”<sup>2</sup>

President Harding’s landslide victory in the 1920 presidential election ushered in a period of conservatism during the 1920s. During the campaign, Harding called for a return to traditional limited government over the progressive administration of President Woodrow Wilson. Wilson’s administration, which pursued a progressive agenda under his New Freedom program, ushered in a centralized economy when the United States entered the Great War. During World War I, the nation “witnessed an enormous and wholly unprecedented intervention of the federal government in the nation’s economic affairs.”<sup>3</sup> The nation’s involvement in the Great War resulted in a massive national debt of over \$24 billion and a federal budget of over \$6 billion.

In addition to inheriting the large national debt and the massive scale of government spending, President Harding also faced a severe economic downturn, which created 11.7 percent unemployment. Federal tax rates were also high, with the top income tax rate at 73 percent. Harding’s economic program focused on reducing spending, cutting tax rates, and rolling back regulations, among other objectives.

As Budget Director, Charles Dawes had not only the support of Harding, but the objective of rolling back federal spending and bringing fiscal prudence back to the federal government. Dawes would also be joined by Andrew Mellon, who served as Secretary of the Treasury, and who would also push for reductions in spending and taxes. Although Dawes, Mellon, and others in the Harding administration supported the President’s agenda, it was Harding who provided the leadership and leverage by strongly backing Dawes and Mellon. The result was “federal spending was cut from \$6.3 billion in 1920 to \$5 billion in 1921 and \$3.2 billion in 1922.”<sup>4</sup> In addition, “federal taxes fell from \$6.6 billion in 1920 to \$5.5 billion in 1921 and \$4 billion in 1922.”<sup>5</sup> “By the time he [Harding] died in August 1923, he had cut spending almost 50 percent, and cut taxes almost 40 percent,” noted economic historian Jim Powell.<sup>6</sup>

President Calvin Coolidge continued Harding’s economic policies and pushed for further spending and tax reductions. Under Coolidge, the top tax rate fell to 25 percent and federal spending fell to \$2.7 billion in 1927.<sup>7</sup> The Harding-Coolidge policies created a period of economic prosperity or “Coolidge Prosperity” and the “Roaring Twenties.” In addition, as argued by Powell, “altogether, spending and taxes were cut 50 percent during the 1920s, and about 30 percent of the national debt was paid off.”<sup>8</sup>

Currently, the federal government needs to embrace economy in government before the level of debt leads to economic ruin. Government spending is consuming 25 percent of gross domestic product (GDP) and the national debt is over \$14 trillion and rising. President Barack Obama has proposed a budget of \$3.7 trillion, which does not adequately address the need to reduce spending. The federal government is running deficits in the trillions (\$1.4 trillion in 2009, \$1.3 trillion in 2010) and the Congressional Budget Office is estimating a \$1.5 trillion deficit for 2011.

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Phone: 319-385-3462 Fax: 319-385-3799

At the heart of the fiscal crisis is the unfunded entitlement mandates of Social Security, Medicare, and Medicaid that are estimated to cost at least \$100 trillion unless these programs are not reformed.

Recently, Republicans in Congress have been pushing to roll back spending, but Democrats and some economists are arguing that cutting federal spending now will jeopardize economic recovery and result in further unemployment.<sup>9</sup> Historically, following limited-government policies that promote economic growth leads to periods of economic prosperity, as the 1920s (and 1980s under President Ronald Reagan) demonstrate. The escalating national debt and fiscal crisis is certainly placing much uncertainty over the economy. The fiscal crisis is also a looming threat in terms of both our economy and national security. In comparing the debt from World War I with today's fiscal crisis, historian Burton Folsom, Jr., wrote:

He [Andrew Mellon] said that the \$24 billion national debt after World War I was so immense that it possibly threatened U.S. economic strength permanently. That \$24 billion, which is about \$300 billion in 2011 dollars, is less than one-third of the debt proposed by President Obama in one year alone. In other words the President has proposed a deficit for 2012 that is three times larger than the entire national debt after World War I.<sup>10</sup>

Historian Paul Johnson, in his book *Modern Times*, stated that "Harding can be described as the only President in American history who actually brought about massive cuts in government spending..."<sup>11</sup> Dawes provided Harding with credit for enforcing his objective of reducing spending and stated that "this work could not have been done under a weak, vacillating or irresolute man."<sup>12</sup>

Solving the fiscal crisis and reducing our national debt will not be an easy process, and the process will be especially difficult when addressing the need to reform entitlement programs. Although we cannot return to the 1920s, policymakers can certainly learn from the ideas and political philosophy that governed Harding and Coolidge. Their philosophy was rooted in a commitment to constitutional limited government. In addition, both were committed to the cause of reducing spending, lowering taxes, and paying down the national debt. The resulting economic record speaks for their policies.

Endnotes:

<sup>1</sup>Warren G. Harding, quoted in *The Harding Era: Warren G. Harding and His Administration*, by Robert K. Murray, American Political Biography Press, Newton, Connecticut, 1969, p. 175.

<sup>2</sup>Charles G. Dawes, quoted in *The Harding Era*, p. 175.

<sup>3</sup>Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government*, Oxford University Press, New York, 1987, p. 123.

<sup>4</sup>Jim Powell, "Not-So-Great Depression," *National Review Online*, January 7, 2009, <<http://www.nationalreview.com/articles/226645/not-so-great-depression/jim-powell>> accessed March 1, 2011.

<sup>5</sup>Ibid.

<sup>6</sup>Jim Powell, "Jump Starting the Economy," *The Washington Times*, September 14, 2010, <<http://www.washington-times.com/news/2010/sep/10/harding-and-coolidge-18-unemployment/>> accessed on March 1, 2011.

<sup>7</sup>Ibid.

<sup>8</sup>Ibid.

<sup>9</sup>Conn Carroll, "Why Liberals Love Government Waste," *Morning Bell*, The Heritage Foundation, March 2, 2011, <[http://blog.heritage.org/2011/03/02/morning-bell-why-liberals-love-government-waste/print/?utm\\_source=Newsletter&utm\\_medium=Email&utm\\_campaign=Morning%2BBell](http://blog.heritage.org/2011/03/02/morning-bell-why-liberals-love-government-waste/print/?utm_source=Newsletter&utm_medium=Email&utm_campaign=Morning%2BBell)> accessed on March 2, 2011.

<sup>10</sup>Burton Folsom, Jr., "Will Our Children Curse Us Tomorrow for the Debt We Give Them Today?" *Burt Folsom: Where History, Money, and Politics Collide*, February 28, 2011, <<http://www.burtfolsom.com/?p=1024>> accessed on March 1, 2011.

<sup>11</sup>Paul Johnson, *Modern Times: The World from the Twenties to the Nineties*, Harper Perennial, New York, 1992, p. 216.

<sup>12</sup>Charles G. Dawes, quoted in *The Harding Era*, p. 178.

*John Hendrickson is a Research Analyst with Public Interest Institute, Mount Pleasant, Iowa.*

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