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On Power and the Use of Coercion

To Grow the Economy, We Must Shrink President Obama's Big Government

by Alison Acosta Fraser

Daunting issues await lawmakers returning to Washington: the fiscal cliff; unprecedented spending; soaring debt. And there's no easy fix in sight. Before tackling these issues, lawmakers should take a deep breath and assess the nation's economic health.

The economy is growing, but nowhere near as fast as it needs to be. Just ask the 23 million Americans who have no work, can only find part-time jobs, or have given up and stopped looking.

The unemployment rate remains stubbornly high — and would be far higher had not millions of would-be workers given up looking altogether. Job creation is lackluster, averaging about 157,000 jobs per month so far in 2012, about the same as last year. And the economy is growing at a sluggish pace, with gross domestic product, or GDP, increasing by an annualized rate of only 1.3 percent in the 2nd quarter.

Each of these measures should be higher at this point in a recovery. GDP should be growing at more like 3.5 percent. To bring down the unemployment rate, job growth should be north of 200,000 monthly. (We need 125,000 net new jobs just to keep pace with a growing population.) Instead, we have the weakest recovery since 1945, one dragging along nearly three times slower than the 1981 recovery.

Over at the Federal Reserve, Chairman Ben Bernanke's monetary machinations — churning out low interest rates and engaging in serial "quantitative easing" — are more proof of a floundering economy.

President Obama's machinations have fared no better. His first act — a massive stimulus package, complete with "shovel ready" infrastructure projects — was supposed to jolt the economy and get people back to work.

Instead, unemployment continued to shoot up and Americans were left with the $830 billion tab. The stimulus failed because government can't create purchasing power out of thin air. It must first tax it or borrow it out of the private economy, leaving that much less for the private sector to spend.

Compounding the stimulus debacle was a massive regulatory initiative that crimped

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To Grow the Economy by Alison Acosta Fraser

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business activity. In the last three years, 106 major new regulations have saddled the private sector with additional annual costs estimated to run $46 billion per year, according to research by the Heritage Foundation.

Like excessive taxation, regulatory excesses harm the economy. They hamstring investment and innovation and siphon off valuable resources that could be used to create jobs or improve wages.

Lawmakers must change course, reversing the harm inflicted by these big-government policies. Here's how:

First, stop Taxmageddon — the massive tax increases coming on January 1, when the Bush-era tax cuts and other tax policies expire and new tax hikes from Obamacare kick in. Blocking scheduled tax hikes on work and capital will help heal business and investment uncertainty and get people back to work. That's just as true for a middle-income senior with dividend-paying stocks as it is for a wealthy venture capitalist.

Next, stop and reverse the rising tide of unnecessary red tape. This includes ending the Environmental Protection Agency's tireless crusade against global warming. It means repealing the new Consumer Financial Protection Bureau, an unaccountable entity with unlimited power over every form of consumer credit, and the "Volker rule" to restrict bank investment — both spawned by the "Dodd-Frank" Wall Street reform law of 2012. And, of course, Obamacare must be repealed.

These harmful government interventions into what should be private markets have created vast uncertainty for employers, investors, and families.

EPA regulations, for instance, are highly unlikely to affect global warming, but they will almost certainly cost consumers when they go to buy a car or turn on the lights. They will also likely drive business activity offshore. Dodd-Frank will do little to prevent "too big to fail" financial institutions. But already it's making it harder to get a mortgage and more expensive to do business with your bank. And Obamacare will likely drive the nation deeper into debt while delivering substandard health care.

Congress and the President must get serious about putting the nation's fiscal house in order. Our rapidly mounting debt reflects a spending problem. The answer is not higher taxes. Indeed, the threat of future tax hikes and burgeoning debt is helping hold back growth.

Finally, entitlement programs must be put on fiscally sound footing and strengthened for future generations. Social

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Obamanomics Explained

by Alan Reynolds

In a recent *Wall Street Journal* op-ed (November 2) President Obama wrote that "in the eight years after" Bill Clinton left office, "we followed a different path. Bigger tax cuts for the wealthy we couldn't afford... The result of this top-down economics? Falling incomes, record deficits, the slowest job growth in half a century, and an economic crisis... " Obama had taken up that theme during the first presidential debate, arguing that "The approach that Governor Romney's talking about is the same sales pitch that was made in 2001 and 2003, and we ended up with... the worst financial crisis since the Great Depression."

This is a remarkably imaginative theory — albeit one that reveals appalling economic illiteracy. Who else would have imagined that the housing bust and subprime-mortgage crisis were actually caused by cutting the top two tax rates in mid-2003?

In the second debate, Obama repeated that "The last thing we need to do is to go back to the very same policies that got us there" — meaning top marginal tax rates that were slightly reduced, yet still higher than in 1988 – 92. Instead, he proposed, "for [incomes] above $250,000, we can go back to the tax rates we had when Bill Clinton was President... That's part of what took us from deficits to surplus. It will be good for our economy and it will be good for job creation."

This is Obamanomics in a nutshell: Reducing the highest tax rates led to financial crisis, so raising the highest tax rates "will be good for job creation." Huh? What sort of economics is that? Obama suggests that raising the top two tax rates will turn deficits into surpluses, which would now be good for our economy. Isn't he the one who used to say huge deficits were a "stimulus"? In reality, of course, raising the top two rates is merely a symbolic gesture of revenge against successful people who often vote the wrong way. It would raise even less revenue (even ignoring its poisonous impact on the economy) than Obamacare hopes to collect from the same over-$250,000 group if they remain foolhardy enough to save and invest.

So, here we are facing a $536 billion tax increase on January 1 — the only "fiscal cliff" that matters — and Obama has been invoking his theory to block any medium-term solution (including the sequestration) that might ever cut federal spending below 23 percent of GDP. Instead, Obama has repeatedly insisted that he will never accept any solution to the looming tax shock that does not raise the top two tax rates. As *The Wall Street Journal* reports, "Some say a win for the President could spark... a selloff in riskier investments such as stocks. That is because... President Obama has said he would veto any extension of upper-income tax cuts."

As strange as Obama's economic theory is (the idea that lower tax rates cause crises while surpluses stimulate the economy), his perception of the facts also ignores his own Treasury Department. The Obama Treasury estimates that to "reinstate the 36 percent and 39.6 percent tax rates for upper income taxpayers" would raise only $23.1 billion in 2013. That is not even as large as Obamacare's 3.8 percent surtax on the same "rich" taxpayers' capital gains, dividends, interest income, and rent. Raising the top two rates offsets barely 4 percent of the tax hikes brought on by the fiscal cliff — scarcely sufficient reason to threaten to veto any bipartisan solution to the remaining $513 billion of looming tax increases.

What about Obama's plans to raise other tax rates on upper incomes? The Obama Treasury estimates that taxing long-term capital gains at 20 percent "for upper-income taxpayers" (not counting the Obamacare surtax) would raise $5.8 billion in

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2013, but lose $5.9 billion in the following two years. That adds up to less than zero. Treasury foolishly expects some small change from raising the dividend tax from 15 percent to 43.4 percent, but the resulting flight from stocks would obviously crash both the market and the economy.

Barack Obama does not understand economics and apparently refuses to listen to those who do.

Alan Reynolds is a Senior Fellow at the Cato Institute. This article appeared on November 6, 2012 at Cato Institute's website, http://www.cato.org and orginally appeared on National Review Online *on November 6, 2012.*

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Merry Christmas and Happy New Year from all of us at Public Interest Institute.

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The 2012 Elections: A Nation Divided

by John Hendrickson

For supporters of conservatism and limited government the November 2012 elections were discouraging. President Barack Obama defeated his Republican opponent Governor Mitt Romney, while the Democrats also held on to the United States Senate. The Republicans did manage to keep control of the House of Representatives and win some key races. Even though the status quo remains, conservatives are stunned that President Barack Obama was reelected with both a failed economic record and his policies of government expansion through regulation and health care (Patient Protection and Affordable Care Act).

The policy and economic uncertainty remain as policymakers will continue to debate solutions in regard to economic policy and the fiscal crisis. Voters also sent a mixed message at the state level as a number of referendum and initiatives demonstrated the divided nature of the nation. The results of the 2012 election demonstrate that the nation is at a serious political, economic, and cultural crossroads and it is vital that Americans renew themselves with the values of the American founding in order to reverse the current national decline.

The Initiative and Referendum Institute based at the University of Southern California Gould School of Law reported that "voters decided 174 ballot propositions across 38 states" on Election Day.[1] An overview of these measures included "42 initiatives, 12 referendums, 117 legislative measures, and three votes on constitutional conventions."[2] The more controversial issues included taxes, marriage, health care, and marijuana legalization efforts.[3] Numerous bond issues also appeared on ballots across the nation as well as efforts to protect the right to hunt and fish.

In regard to taxes, the results were mixed for taxpayers. In commenting on the election results National Taxpayers Union (NTU) Executive Vice President Pete Sepp stated:

> Politicians are loading up their victory and concession speeches with opinions on what happened with the election, but one thing is clear: big government cannot claim a mandate at the ballot box this year. No matter how else the outcome is spun,

rt of individuals like you who believe in individual liberty and free-market
e-paid envelope to make your tax-deductible contribution to this effort today.

> when voters weighed in on specific fiscal issues, they were reluctant to give government deeper reach into their pockets and lives.[4]

Some of the victories for taxpayers included:

> •Arizona Proposition 117 limits the growth in assessed valuation of property for tax purposes to 5 percent per year.
> •New Jersey Question 2 requires state judges to contribute toward their health and pension benefits.
> •Oklahoma Question 766 repeals the state's intangibles tax.
> •Oklahoma Question 758 would cap state property tax increases to 3 percent per year.
> •Oregon measure 85 repeals the state's "kicker" corporate income tax refund in times of high revenues.
> •Oregon measure 79 bans real estate transfer taxes.
> •Washington Initiative 1185 reaffirms, yet again, a two-thirds legislative supermajority requirement for new taxes. Voters have repeatedly approved this supermajority requirement — four times in the past twenty years (1993, 1998, 2007, 2010), but Legislators keep repealing it.[5]

Some of the defeats for taxpayers included:

> •Californians did give the nod to Governor [Jerry] Brown's plan to "temporarily" expand income, sales, and other taxes…Voters also backed a punitive new tax regime for businesses with sales in other states.
> •Florida voters rejected the opportunity to augment their already strong constitutional protections against higher taxes through a new revenue limit based on inflation and population growth.
> •Michigan decided against supplementing the State Constitution's existing voter approval requirement against tax hikes with a new legislative supermajority protection.
> •New Hampshire citizens voted in favor of a constitutional ban on a statewide income tax by a 57 percent margin, but the amendment required a two-thirds margin to take effect.
> •Oregon's citizens decided against a plan to completely phase out estate and inheritance taxes.[6]

The issue of labor unions also had mixed results, especially in the aftermath of battles over collective bargaining, pensions, and pay that occurred in such states as Wisconsin and Ohio. As Stephen Moore, an editorial writer with *The Wall Street Journal* noted:

> Paycheck protection, which would prohibit unions from using payroll-deducted funds for political purposes and also prohibits corporate and union contributions to politicians, also failed in California. But in Michigan, an initiative funded by unions to cement in the state collective bargaining rights failed. This was an attempt to prohibit [Governor] Scott Walker, Wisconsin-style restraints on public employee union power.[7]

Moore also noted that several states also stood their ground in regard to health care and the Patient Protection and Affordable Care Act:

> Five states had measures on health-care freedom. Alabama, Montana and Wyoming approved initiatives that protect the rights of patients to make their own health decisions and don't allow the state to compel the

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2012 Elections: A Nation Divided by John Hendrickson

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purchase of insurance. That measure failed narrowly in Florida. Missouri voters approved a measure prohibiting the creation of a health-care exchange without a vote of the people or a vote of the Legislature. These initiatives could set up a clash with the federal government over the implementation of ObamaCare.[8]

The election also proved that the cultural war continues with the nation divided over important social questions such as marriage and drug legalization. Voters in Colorado and Washington passed measures to legalize marijuana, which has been applauded by some libertarians and progressives, but many conservatives see this as a troublesome trend. This will also bring up some constitutional questions because of federal drug laws. Voters in Maine, Maryland, and Washington also approved same-sex marriage, while voters in Minnesota rejected a constitutional amendment to ban same-sex marriage. The battle to redefine marriage to include same-sex marriage will most likely have to be resolved by the Supreme Court.[9] So far "32 out of 32 states that put the issue to a vote defined marriage as a union of a man and a woman," which still urgently calls for the need of a federal constitutional amendment to protect marriage.[10]

Other important issues at the ballot box included a constitutional amendment in Minnesota to require voters to present an ID in order to vote that failed. This is an issue that will be debated not only here in Iowa in the upcoming Legislative session, but across the nation. Voters in California "declined to abolish capital punishment."[11] Several states also passed measures to secure the right to hunt and fish and voters in Louisiana passed Amendment 2, which "requires 'strict scrutiny' from courts when evaluating laws that restrict gun possession."[12]

In describing the results of the election, Sepp stated that "Americans spoke with many voices in the 2012 election, but when it comes to pocketbook issues they vote on directly, their political vocabulary often opposed excessive taxation and spending while calling for moderation."[13] Moore argues that "the overall voter message of these various initiatives if there is one, is the electorate is moving in a more libertarian direction…"[14] Nevertheless, ideas and votes do have consequences, and the overall message of the election both on the state and national level demonstrate a divided nation. The 2012 election will have a tremendous impact on the future of the nation, and it is quite clear that in order to solve our national and state problems will require a return to traditional conservative principles and a defense of our American heritage.

Endnotes:

[1]"Election Results 2012: Breakthrough Wins for Marijuana and Same-Sex Marriage," *Ballotwatch*, Initiative and Referendum Institute, University of Southern California Gould School of Law, No. 3, November 2012, <http://iandrinstitute.org/BW%202012-3%20Election%20results%20v1.pdf> accessed on November 13, 2012.
[2]Ibid.
[3]Ibid.
[4]Pete Sepp, "Election was no blow-out for big government, taxpayer group's analysis of state ballot measures show," National Taxpayers Union, November 7, 2012, <http://www.ntu.org/news-and-issues/state-issues/ballot-measures/117election-was-no-blow-out-for.html> accessed on November 9, 2012.
[5]Joseph Henchman, "State and Local Ballot Initiative Results," Tax Foundation, Washington, D.C., November 6, 2012, < http://taxfoundation.org/blog/state-and-local-ballot-initiative-results> accessed on November 13, 2012.
[6]Sepp.
[7]Stephen Moore, "Let voters decide," *The Wall Street Journal*, November 8, 2012, <http://online.wsj.com/article/SB10001424127887324439804578106773676598996.html?mod=WSJ_Opinion_LEFTSecond> accessed on November 9, 2012.
[8]Ibid.

[9]Ryan T. Anderson, “How Marriage fared in the 2012 election,” *The Foundry*, November 8, 2012, The Heritage Foundation, Washington, D.C., < http://blog.heritage.org/2012/11/08/how-marriage-fared-in-the-2012-election/> accessed on November 13, 2012.
[10]Ibid.
[11]“Ballotwatch: Election Results 2012: Breakthrough Wins for Marijuana and Same-Sex Marriage.”
[12]Ibid.
[13]Sepp.
[14]Moore.

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Four Years Is Plenty of Time to See a Recovery

by
Burton W. Folsom, Jr.

President Obama charged up the Democrat troops at Charlotte: “I’m asking you to rally around a set of goals for your country,” he said. “That’s what we can do in the next four years.” But why, many ask, have we not really recovered from our last recession? We have fewer people employed now than we did when President Obama took office. And many of the unemployed have simply given up looking for work. “Four years was not enough time,” President Obama and his supporters insist. “The problems were too deep.”

What about past recessions? Let’s look to history for help. In 1921, for example, the U.S. had 11.7% unemployment. We were recovering from World War I, and President Warren Harding and Vice President Calvin Coolidge were elected to restore prosperity in America — a “return to normalcy,” as Harding called it in the campaign. After the election, Harding had a President’s Conference on Unemployment to give him advice on the issue. Most of the 300 “experts” and leaders recommended that the President promote a kind of stimulus package: Put people to work building roads and infrastructure. Harding, however, took a pass. “The excess stimulation from that source is to be reckoned a cause of trouble rather than a source of cure.”

Why did Harding and Coolidge reject massive federal spending? First, because it was unconstitutional; and second, because it wouldn’t work. Federal spending would merely redistribute cash from taxpayers to bureaucrats—a mere shift of jobs from the private to the public sector. Harding’s plan was to have people create jobs for other people — a kind of private-sector stimulus package. He slashed federal spending drastically, and then cut tax rates as well. According to the Historical Statistics of the United States, published by the Census Bureau, Harding cut federal spending from $6.4 billion in 1920 to $3.1 billion in 1923. And he cut the top marginal tax rate from 73% in 1920 to 56% in 1923 — and later Coolidge cut the rate further to 25% by 1926.

In other words, the Harding-Coolidge Administration cut federal spending by more than one half in three years, and cut the tax rate as well. What was the result? Unemployment plummeted from 11.7% in 1921 to 2.4% in 1923. And we had budget surpluses during every year of the 1920s. We had a dramatic recovery and it happened in less than four years.

President Reagan was under the same pressures as Harding and Coolidge. And although President Reagan did not cut federal spending, he did cut tax rates on top incomes from 70% in 1980 to 28% in 1986. Unemployment again plummeted, while revenue poured into the Treasury — as it did under Harding and Coolidge.

Four years is plenty of time to see a recovery. But it takes the right policies — more individual liberty and less government intervention.

Burton W. Folsom, Jr., is the Charles F. Kline Chair in History and Management at Hillsdale College and is the author of The Myth of the Robber Barons, New Deal or Raw Deal, *and* FDR Goes to War, *which was co-authored with his wife Anita Folsom.*

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To Grow the Economy
by
Alison Acosta Fraser

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Security must be tackled, so it is affordable and — unlike today — protects seniors against living their retirement in poverty. We are living longer, so the retirement age should be gradually increased.

As for Medicare and Medicaid, rather than have government bureaucrats micromanage half of all health care in America, we should move to a model where the government helps pay for premiums of private insurance. That approach puts patients and doctors in charge of health-care decisions. Bringing these programs under control is vital to reining in spending, so that we can stabilize and ultimately reduce the national debt.

Excessive federal spending, regulation, and debt only exacerbate our economic woes. To grow the economy, we need to shrink government.

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