



## Follow the Constitution Rather Than Keynes

by John Hendrickson

As the economic crisis continues, the Obama administration and congressional Democrats will reopen the pages of President Franklin D. Roosevelt's playbook. After soundly defeating President Herbert Hoover, President Franklin Roosevelt in 1933 launched his New Deal, which called for bold policy experimentation. At the center of New Deal economics rested the economic philosophy of John Maynard Keynes. Both President Obama and his allies in Congress will look to utilizing Keynesian economics in order to back the United States out of the financial crisis. Continuing with President George W. Bush's stimulus initiatives, President Obama and Democrats are looking at a possible \$850 billion to \$1 trillion stimulus package that would be directed at infrastructure projects in order to resuscitate the economy and reverse the unemployment trend, which currently stands at 7.2 percent. Rather than spending massive taxpayer dollars in further stimulus legislation, Congress should push for tax cuts and other limited government policies in order to bring the economy out of recession.

The federal government is currently facing a \$10.6 trillion national debt and a \$1.2 trillion deficit for 2009.<sup>1</sup> This also includes the looming threat of entitlements such as Social Security and Medicare going bankrupt in the near future. In addition to corporations and businesses asking for federal bailouts, many state Governors are asking for "as much as \$1 trillion in federal assistance" from Congress and the Obama administration.<sup>2</sup> Dr. Stuart M. Butler, Vice President for Domestic and Economic Policy Studies at The Heritage Foundation, has recently written that Keynesian strategies will not work. "The simple fact is that every dollar used for such spending comes from the private economy, meaning resources that would be spent or invested in one place are spent somewhere else," wrote Butler.<sup>3</sup> Brian M. Riedl, Grover M. Hermann Fellow in Budgetary Affairs at The Heritage Foundation, argued that "massive spending hikes in the 1930s, 1960s, and 1970s all failed to increase economic growth rates."<sup>4</sup>

The prime example of Keynesianism was Roosevelt's New Deal, which targeted vast amounts of taxpayer dollars to revive the economy through public works, social welfare, and business regulation through various alphabet-soup agencies such as the National Recovery Administration (NRA), Civilian Conservation Corps (CCC), and the Works Progress Administration (WPA) among others. The New Deal failed to pull the nation out of the Great Depression and solve the problem of unemployment.<sup>5</sup> As Jim Powell wrote, "As a cure for the Great Depression, government spending didn't work. In 1933, federal government outlays were \$4.5 billion; by 1940 they were \$9.4 billion, so FDR more than doubled federal spending, and still unemployment remained stubbornly high."<sup>6</sup> In fact, with all of the New Deal spending not only did Roosevelt fail to solve the problem of unemployment, but the nation also suffered a deepening of the Depression in 1938. The late economist Milton Friedman in his *Monetary History of the United States* argued that the Great Depression was "the only occasion in our record when one deep depression followed immediately on the heels of another," referring to the Roosevelt recession of 1938.<sup>7</sup>

Because Keynesian-New Deal solutions are not the answer, lawmakers should look to constitutional and free-market principles to solve the economic crisis. Lawmakers should stick to fiscal prudence, that is, cutting government spending and expanding tax cuts. President George W. Bush's tax cuts should not only be made permanent, but also expanded and, in addition, Congress should reduce the corporate tax. As The Heritage Foundation scholars J.D. Foster and William W. Beach have argued, "Reduce tax rates on individuals, small businesses, and corporations through 2013 to prevent a tax increase."<sup>8</sup> "By far the most effective means of helping the economy recover is to improve the incentives that drive economic activity, that means reducing tax rates on work, saving, investment, risk taking, and entrepreneurial activity," wrote Foster and Beach.<sup>9</sup>

History has also shown that constitutional and free-market based policies work in times of recession. After his inauguration, President Warren G. Harding inherited a recession from World War I with high unemployment. Harding and his Secretary of Treasury, Andrew Mellon responded with tax reductions, cutting government

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expenditures, and liberating “the shackles from industry.”<sup>10</sup> As Jim Powell noted, “Federal spending was cut from \$6.3 billion in 1920 to \$5 billion in 1921 and \$3.2 billion in 1922. Federal taxes fell from \$6.6 billion in 1920 to \$5.5 billion in 1921 and \$4 billion in 1922.”<sup>11</sup> The Harding economic program was continued by President Calvin Coolidge, who along with Secretary Mellon continued to reduce taxes and budgets. The result was the economic prosperity of the 1920s — Harding-Coolidge prosperity.

The private sector has also been more capable of creating jobs. The objective of the proposed stimulus plan is to use the force of government to create at least three million jobs. President Roosevelt’s New Deal, although funneling millions into public works programs, could not solve the problem of unemployment. The Japanese in the 1990s also tried to rely on government infrastructure spending to create jobs, “and the consequence was two decades of economic stagnation.”<sup>12</sup> The best solution to create jobs is to allow the private sector to work, and the best help that the government can provide is tax cuts. As J.D. Foster noted, “The only effective fiscal stimulus is to defer the pending tax hike into the more distant future and cut individual and corporate tax rates further.”<sup>13</sup> “Stimulating the economy requires reducing the impediments of starting new businesses, hiring, working, and investing,” wrote Foster.<sup>14</sup>

Patrick J. Buchanan recently wrote that Presidents “Harding, Coolidge, JFK, and Reagan all bet on the private sector as the engine of prosperity. All succeeded.”<sup>15</sup> The United States cannot expect to prosper on the present financial course, nor can it afford to allow the economic crisis to deepen. President Obama and Congress should follow the advice of President Reagan when he told the nation that in this present crisis government is not the solution to our problems — government is the problem.

#### Endnotes

<sup>1</sup>“Obama pledges to make tough choices on deficits and debt,” *Minneapolis Star Tribune*, January 6, 2009, <<http://www.startribune.com>> (January 7, 2009) and “CBO sees record \$1.2 trillion ’09 deficit,” *The Associated Press*, January 7, 2009, <<http://www.msnbc.msn.com>> (January 7, 2009).

<sup>2</sup>Andy Barr, “States want \$1 trillion to ‘keep afloat,’” *Politico*, January 3, 2009, <<http://dyn.politico.com>> (January 3, 2009).

<sup>3</sup>Stuart M. Butler, *Permanent Tax Relief-Not Tax “Holidays”-Stimulates Economic Growth*, *WebMemo No. 2152*, December 3, 2008, The Heritage Foundation, p. 1.

<sup>4</sup>Brian M. Riedl, *Why Government Spending Does Not Stimulate Economic Growth*, *Backgrounder No. 2208*, November 12, 2008, The Heritage Foundation, p. 1.

<sup>5</sup>For an overview of President Franklin D. Roosevelt’s New Deal please read: *FDR’s Folly: How Roosevelt and His New Deal Prolonged the Great Depression*, by Jim Powell, and *New Deal or Raw Deal*, by Burton Folsom, Jr.

<sup>6</sup>Jim Powell, *FDR’s Folly: How Roosevelt and His New Deal Prolonged the Great Depression*, Three Rivers Press, New York, 2003, p. xiii.

<sup>7</sup>*Ibid.*

<sup>8</sup>J.D. Foster and William W. Beach, *Economic Recovery: How Best to End the Recession*, *WebMemo No. 2191*, January 7, 2009, The Heritage Foundation, p. 1.

<sup>9</sup>*Ibid.*, p. 3.

<sup>10</sup>Warren G. Harding quoted in Jim Powell’s “Not-So-Great Depression,” *National Review Online*, January 7, 2009, <<http://www.cato.org>> (January 9, 2009).

<sup>11</sup>*Ibid.*

<sup>12</sup>Ronald D. Utt, *Learning from Japan: Infrastructure Spending Won’t Boost the Economy*, *Backgrounder No. 2222*, December 16, 2008, The Heritage Foundation, p. 4.

<sup>13</sup>J.D. Foster, *Cut Tax rates and Create 2.5 Million—No, 3.5 Million New Jobs*, *WebMemo No. 2218*, The Heritage Foundation, January 13, 2009.

<sup>14</sup>*Ibid.*

<sup>15</sup>Patrick J. Buchanan, “Obama’s Choice: FDR or Reagan,” January 9, 2009, <<http://www.buchanan.org>> (January 9, 2009).

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