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Humphrey's Warning

by John Hendrickson

George M. Humphrey, who served as Secretary of the Treasury in President Dwight D. Eisenhower's administration, warned that "a depression that will curl your hair" would occur if "taxes and spending" were not cut.[1] Humphrey advocated reducing both taxes and spending, which would be the best economic formula to promote free enterprise and a healthy economy.[2] In regard to the federal budget, Humphrey noted that "there are a lot of places in this budget that can be cut."[3] Although Humphrey was addressing the economic and budget situation in the 1950s, his advice remains fundamental for the restoration of the nation's economy.

The national economy is still struggling as unemployment is 9.5 percent and as *The Wall Street Journal* reported growth has slowed "throughout the economy, from slower manufacturing growth to elevated claims for jobless benefits and declines in home construction and pending sales."[4] The reason for the failed economic recovery rests with bad public policy that is centered on Keynesian-style government spending and increased regulation and taxation — all of which create uncertainty and anxiety in the market. The $862 billion economic stimulus has not created jobs nor has it reversed unemployment. In addition, the private sector is uncertain because of the increase in regulatory authority by the federal government with the proposed financial reform and cap and trade bills.

"In my view the weakness in the recovery is mainly due to uncertainty about economic policy and concerns about how large policy inconsistencies will be resolved in the future," noted John B. Taylor, a Stanford University economist and fellow with the Hoover Institution.[5] Taylor's reasoning was echoed by Samuel R. Staley of the Reason Foundation, who wrote that "rising deficits and the national debt, unfunded entitlements, and the prospect of less money for lending to meet newly imposed capital requirements on banks all create uncertainty in the private sector that makes investors skittish."[6]

Policymakers need to address the spending and debt problem immediately. The national debt is at least $13 trillion and the federal budget is running a $1.5 trillion deficit for this year and deficits are projected into the future. The federal budget is over $3 trillion and recently Congress has decided not to formulate a budget, which ignores the urgency to address federal spending and tax policy. At the center of the fiscal crisis is the danger of entitlement programs — Social Security, Medicare, and Medicaid — consuming the entire federal budget unless they are reformed. "Their total cost is projected to leap from 8.4 percent of GDP in 2007 to 18.4 percent by 2050."[7] This does not include the projected costs of President Obama's health-care reform legislation, "which will add hundreds of billions to the federal deficit over the next ten years, and trillions more beyond that."[8]

Tax policy is also a major concern for the economy. The tax cuts that were passed by Congress and signed into law by President George W. Bush are set to expire in January 2011 and it is uncertain if the Congress will renew those cuts. This is in addition to debate whether or not Congress should enact a VAT (value-added tax) on top of the current existing tax structure. "Right now, we are facing one of the largest tax hikes in U.S. history, scheduled for 2011," argued former Reagan economic adviser Larry Kudlow.[9] If Congress fails to renew the Bush tax cuts, "taxes on investor capital and business will go up significantly," which along with an increase in the income tax will stifle economic growth and job creation.[10]

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The solution to solving the economic recession is not to increase spending on additional stimulus measures, but to reduce spending and institute across-the-board tax cuts. As Kudlow noted:

> During the Ronald Reagan 1980s, when a deep recession led to a 10.8 percent unemployment rate, the Gipper cut domestic discretionary spending, lowered tax rates across-the-board (including corporate tax rates) and sped up tax write-offs for business investment. The first two years of that recovery generated nearly eight percent growth, with hundreds of thousands of new jobs created monthly.[11]

Richard W. Rahn, a Senior Fellow with the CATO Institute, recently wrote that "most of the current problems facing America stem directly from the failure of elected representatives to follow the Constitution."[12] Chris Edwards, Director of Tax Policy Studies at CATO, recently recommended before the National Commission on Fiscal Responsibility and Reform several solutions to resolving the fiscal crisis. The reforms that Edwards recommends include "restructuring the big three entitlements, terminating unneeded programs, reviving federalism, and privatization."[13] In other words return back to limited constitutional government and allow the private sector to work.

Senator Barry M. Goldwater, *The Conscience of a Conservative*, recommended a "10 percent spending reduction each year in all of the fields in which federal participation is undesirable." [14] Only by cutting spending and reducing taxes will the economy rebound and start creating jobs. Policymakers must abandon the progressive ideology and reaffirm their faith in the Constitution. As Larry Kudlow states: "Free market capitalism is the best path to prosperity."[15] Following a limited government policy centered on the Constitution will avoid further national decline. Thankfully our history is filled with individuals who can guide our policymakers out of the current economic and fiscal crisis. Let us be guided by the Founders such as Alexander Hamilton and economic policymakers such as Andrew Mellon and George Humphrey, who understood a healthy economy is based on a balanced budget, low taxes, and a commitment to constitutional government.

Endnotes

[1]George M. Humphrey quoted in Michael Barone, *Our Country: The Shaping of America From Roosevelt to Reagan*, The Free Press, New York, 1990, p. 295.
[2]United States Department of the Treasury, "George M. Humphrey," History of the Treasury: Secretaries of the Treasury, Office of the Curator, 2001, <http://www.ustreas.gov/education/history/secretaries/gmhumphrey.shtml> (July 1, 2010).
[3]Ibid.
[4]Michael S. Derby and Sarah N. Lynch, "Growth slows across U.S. economy," *The Wall Street Journal*, July 1, 2010, <http://online.wsj.com/article/SB10001424052748703571704575340600131620196.html?mod=WSJ_hps_LEFTTopStories> (July 1, 2010).
[5]John B. Taylor, "Perspectives on the U.S. Economy: Fiscal Policy Issues," Testimony before the Committee on The Budget, U.S. House of Representatives, July 1, 2010, p. 1.
[6]Samuel R. Staley, "Prospects for lost decade creep forward," *The Corner*, National Review Online, July 2, 2010, <http://corner.nationalreview.com/post/?q=ODQ3N2U3YTBkYjE2ODM4NzU4NWYwOGEwYj> (July 2, 2010).
[7]Brian M. Riedl, "Federal Spending by the Numbers, 2010," *Heritage Special Report*, SR-78, The Heritage Foundation, June 1, 2010, p. 7.
[8]Michael D. Tanner, "$13,050,826,460,886.97," *Cato.org*, the CATO Institute, June 8, 2010, <http://www.cato.org/pub_display.php?pub_id=11874> (June 10, 2010).
[9]Larry Kudlow, "Business-Power Neglect," *Real Clear Politics*, July 3, 2010, <http://www.realclearpolitics.com/ Articles/2010/07/03/business-power_neglect_106193.html> (July 6, 2010).
[10]Ibid.
[11]Ibid.
[12]Richard W. Rahn, "Government taxes imaginary income," *The Washington Times*, July 6, 2010, <http://www.washingtontimes.com/news/2010/jul/6/government-taxes-imaginary-income/> (July 7, 2010).
[13]Chris Edwards, "Approaches to cutting federal spending," testimony before the National Commission on Fiscal Responsibility and Reform," CATO Institute, June 30, 2010, <http://www.cato.org/testimony/ct-ce-06302010.html> (July 9, 2010).
[14]Barry M. Goldwater, *The Conscience of a Conservative*, MJF Books, New York, 1990, p. 53-54.
[15]Larry Kudlow, "The Kudlow Creed," *The Kudlow Report*, <http://www.cnbc.com/id/15838446/> (July 9, 2010).

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