



A Supply-Side Solution

by John Hendrickson

“Actually, the national budget now governs the economy. Unfortunately, it is becoming more and more abnormal. For years we have been spending far beyond our means,” noted General Douglas MacArthur in his retirement as Chairman of the Sperry Rand Corporation.¹ Although General MacArthur was speaking in the late 1950s, his truism still applies today. The nation is at a crossroads and the policies and philosophies that are shaping our economy need to be carefully considered. The federal government, along with many state and local governments, are confronted with a staggering financial crisis in an economy that is fighting to emerge out of a recession. Policymakers not only need to reform spending, that is, cut federal spending and balance the budget, but also enact across-the-board tax cuts to stimulate the private sector side of the economy.

President Barack Obama has recently introduced his \$3.8 billion budget for the federal government, which if approved by Congress, will build upon and hasten the fiscal crisis the nation currently faces. The national debt is \$12 trillion. The federal government ran a \$1.4 trillion deficit in 2009, is projected to run a \$1.6 trillion deficit for 2010, and it appears that deficits will continue into the future if federal spending is not checked.

The economy has shown signs of improvement with an increase in Gross Domestic Product (GDP), and unemployment has been reduced to 9.7 percent, although job creation is still sluggish. In fact the strong possibility of tax increases has brought a sense of uncertainty to the economy. “President Obama’s budget calls for \$2 trillion in higher taxes over ten years after accounting for the \$154 billion in tax cuts called for in the budget.”² The private sector is very nervous over the progressive agenda of continued government spending and tax policy (including the proposed bank tax) and the reform agenda that centers on health care reform, cap and trade, and an increased regulatory state.

Although President Obama and Congress are not totally responsible for the fiscal crisis, the Administration has increased spending at dangerous levels with their Keynesian economic programs such as the \$787 billion stimulus and other recession-fighting measures that have not worked. “Between 1789 and 2008, the U.S. government borrowed a total of \$5.8 trillion. But in just three years of the Obama administration, the government is set to borrow \$4.4 trillion more.”³ The consequence of this spending may result in inflation, a weak dollar, and a decline in the credit rating of the United States.

In order to address the spending issue, President Obama has proposed a spending freeze on a small portion of the federal budget and called for creation of a committee to explore solutions to solve the deficit problem, but these proposals will not be sufficient. The cost of entitlement programs — Social Security, Medicare, and Medicaid — is a significant looming problem for the federal budget. “By 2020, government spending would reach \$5.7 trillion, driven heavily by mounting entitlement costs. Spending on Social Security, Medicare, and Medicaid alone would nearly double over a decade, going from \$1.4 trillion in 2009 to \$2.6 trillion in 2020.”⁴

The current policy debate between President Obama, Democrat leaders in Congress, and conservative and libertarian minded Republicans centers on differences in economic and political thought. The President

A Publication of: **Public Interest Institute at Iowa Wesleyan College**

600 North Jackson Street, Mount Pleasant, Iowa 52641-1328

If you wish to support our efforts, please donate by sending a check to us at the above address.

If you wish to donate by credit card, please go to our website: www.limitedgovernment.org.

PII is a 501 (c) (3) non-profit organization and all contributions are tax deductible.

E-Mail: public.interest.institute@limitedgovernment.org

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

and most Democrats continue to follow the progressive philosophy of President Franklin D. Roosevelt's New Deal. Republicans, who have been labeled as obstructionists, are advocating a return to more conservative policies that are based in constitutional limited-government political thought. The best course of economic recovery, and indeed the best course to restore the United States, is based in the conservative tradition of limited-government and free-market policies.

History has shown that adherence to limited constitutional government provides the best result in economic recovery. In the 20th century the principles of reducing government spending, cutting taxes, and reducing debt have proven successful. In 1921 President Warren G. Harding was confronted with a severe depression, and he responded by pushing for tax cuts, reducing government spending, eliminating excessive regulation, and paying down government debt, which resulted in an economic recovery by 1923. President Calvin Coolidge continued the Harding economic policies, which resulted in further tax cuts, reduction in both the size of government and debt, and a period of business expansion that restored employment.

President John F. Kennedy also pursued a policy of tax reductions that spurred economic growth in the mid-1960s and resulted in a period of economic expansion. President Ronald Reagan, who also inherited a severe economic crisis like Harding, followed a policy of tax reductions. President Reagan's tax policies resulted in a long-term economic expansion. The Harding/Coolidge, Kennedy, and Reagan economic policies followed the supply-side theory of economics, which argues that across the board tax cuts and reducing government spending results in job creation, because the private sector is given incentive to work.

President Warren G. Harding advised that "we must repeal and wipe out a mass of executive orders and laws which, failing to serve effectively that purpose, serve only to leave American business in anxiety, uncertainty, and darkness."⁵ Senator Barry Goldwater noted that "by reducing taxes and spending we will not only return to the individual the means with which he can assert his freedom and dignity, but also guarantee to the nation the economic strength that will always be its ultimate defense against foreign foes."⁶

"The battle has not yet been won in the war of ideas," noted Steve Forbes.⁷ Policymakers need to follow the examples of Harding, Coolidge, Kennedy, and Reagan by cutting taxes to encourage economic expansion. In addition, Congress must take responsibility and roll back government spending and begin paying down the national debt. A sound economic policy can be found in across-the-board tax cuts, reducing government spending, paying down debt, pursuing monetary policies to keep the dollar strong, and all of these policies are found in following the Constitution. The current policy trend of uncontrolled spending, increased regulation, and looming tax hikes not only creates uncertainty in the marketplace, but also does not deal directly with resolving the financial crisis. How long can the United States continue its drift away from the Constitution?

Endnotes

¹Douglas MacArthur, "The National Budget Now Governs the Economy," in Vorin E. Whan (ed.), *A Soldier Speaks: Public Papers and Speeches of General of the Army*, Frederick A. Praeger Publishers, New York, 1965, p. 326.

²Curtis S. Dubay, "Obama's 2011 Budget Tax Hikes Contradict Focus on Job Creation," *Web Memo*, No. 2790, The Heritage Foundation, Washington, D.C., February 3, 2010.

³The Editors, "An Obama-Sized Government," *National Review Online*, February 2, 2010, <<http://www.nationalreview.com>> (February 2, 2010).

⁴Ibid.

⁵Warren G. Harding, "A Message for Businessman," in Warren G. Harding III (ed.), *Our Common Country: Mutual Good Will in America*, University of Missouri Press, Columbia, Missouri, 2003, p. 17.

⁶Barry M. Goldwater, *The Conscience of a Conservative*, Washington, D.C., Regnery Publishing, 1990, p. 61.

⁷Steve Forbes, "Enterprise," in Edwin J. Feulner, Jr. (ed.), *Leadership for America: The Principles of Conservatism*, The Heritage Foundation, Washington, D.C., 2000, p. 130.

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

*Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used:
"Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute."
The views expressed in this publication are those of the author and not necessarily those of
Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.*