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The Harding-Coolidge Path to Prosperity

by John Hendrickson

For the conservative, understanding and appreciating history is not only vital, but it also serves as a guide. "Conservatism reenacts the past not as a program but as a set of beliefs and values which are translated into the current idiom," wrote historian Stephen J. Tonsor.[1] Russell Kirk stated that "the past is a great storehouse of wisdom."[2] In restoring the economy and solving the national debt crisis policymakers must examine the Presidencies of Warren G. Harding and Calvin Coolidge. By applying the Harding and Coolidge economic principles to the policy challenges of today, policymakers will not only create a period of economic prosperity, but also restore the fiscal health of the nation. Both Harding and Coolidge adhered to the principles of constitutional limited government, which was a reflection of their dedication to the values of the American founding.

The nation is suffering from an anemic recovery from the "Great Recession," with a high 9.1 percent unemployment rate, which is followed by uncertainty in the economy and a looming threat of a double-dip recession. The escalating national debt is another albatross hanging on the economy. The national debt is over $14 trillion and federal government spending is creating trillion-dollar deficits — $1.4 trillion in 2009, $1.3 trillion in 2010 — and a $1.5 trillion deficit is projected for 2011. Deficits will continue unless spending is reduced. This is in addition to the unfunded liabilities of entitlement programs, which will consume the entire federal budget unless reformed. The federal government is currently spending 24 percent of the Gross Domestic Product (GDP).

President Barack Obama and the Democrats in Congress are responding to these issues by following progressive policies that are rooted in the philosophy of the New Deal and Great Society. Democrats have been arguing that the solution to economic recovery rests in Keynesian-style government spending, but these economic policies have failed to resolve the economy and unemployment.

A large part of the uncertainty in the economy is also caused by the massive push in regulatory activity from the federal government. Businesses are uncertain about financial, environmental, health, and other forms of new regulations that will place enormous financial burdens on the private sector. The Patient Protection and Affordable Care Act is one example of a new regulation and an entitlement that will place enormous fiscal challenges on businesses as well as the federal government.

President Warren G. Harding faced a similar economic situation when he was sworn in as President in 1921. The nation was suffering from the depression of 1920, which included 11.7 percent unemployment as well as a decline in both business and agriculture. The nation faced a massive level of debt because of World War I and high tax rates, with the highest rate at over 70 percent on top incomes.

President Harding confronted the depression of 1920 with a conservative agenda of reducing government spending, cutting tax rates, paying down the national debt, and repealing excessive regulations. Harding relied on Andrew Mellon, who served as Secretary of the Treasury, and Charles G. Dawes, who served as Director of the Bureau of the Budget, to lead the Administration in their efforts at tax and spending reform. In confronting a $6 billion budget and a $24 billion national debt, which calculated for inflation in today's dollars would be $290 billion, the Administration pursued a policy of economy in government.

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Harding, Mellon, and Dawes believed that the spending and debt levels, unless reduced, posed a significant economic threat to the nation.

Reducing federal spending was not an easy task for the Administration, which had to battle with Congress and special interests, but Harding met his objectives of both reducing spending and lowering tax rates. Jim Powell, an economic historian, noted that "federal spending was cut from $6.3 billion in 1920 to $5 billion in 1921 and $3.2 billion in 1922."[3] Harding's policies resulted in an economic recovery and the depression of 1920 was short lived. "By the time he [Harding] died in August 1923, he had cut spending almost 50 percent, cut taxes almost 40 percent, and began paying down the national debt," noted Powell.[4]

President Coolidge continued the Harding economic program of reducing spending and tax rates. Under Coolidge, the top tax rate fell to 25 percent and federal spending fell to $2.7 billion in 1927.[5] The Harding-Coolidge economic plan resulted in historically low unemployment, budget surpluses, and business and entrepreneur expansion. Economists Richard Vedder and Lowell Gallaway wrote that "the seven years from the autumn of 1922 to the autumn of 1929 were arguably the brightest period in the economic history of the United States."[6]

In the end, the current policy debate over economic recovery and resolving the debt crisis is a battle of ideas. It is very unlikely that the Democrat Party would follow a Harding-Coolidge policy blueprint, but certainly conservatives can learn from the wisdom of the GOP leaders from the 1920s. Although much has changed since the 1920s, especially the emergence of the welfare state entitlement programs, conservatives can still apply limited government constitutional solutions to today's policy problems. Harding and Coolidge were guided by the Constitution, and progressives in their time argued, just as they do today, that the Constitution is outdated to govern a modern industrial society. This philosophy was rejected by the conservatives of the 1920s. As Harding stated, "it is good to meet and drink at the fountain of wisdom inherited from the Founding Fathers of the republic."[7]

The Harding-Coolidge economic program influenced conservative leaders such as President Ronald Reagan, who also used limited-government means to solve an economic crisis and led the nation into a period of economic prosperity. Harding and Coolidge proved that committed leadership to constitutional principles and policies leads to national prosperity.

Public Interest Institute's Policy Study, "The Harding-Coolidge Path to Prosperity: What Policymakers Can Learn From the 1920s to Solve the Budget Crisis and Create a Sound Economy," can be viewed at www.LimitedGovernment.org.

Endnotes:

[1]Stephen J. Tonsor, "How Does the Past Become the Future?" in *Equality, Decadence, and Modernity: The Collected essays of Stephen J. Tonsor*, edited by Gregory L. Schneider, ISI Books, Wilmington, Delaware, 2005, p. 243.
[2]Russell Kirk, "The Essence of Conservatism," The Russell Kirk Center for Cultural Renewal, 1957, <http://www.kirkcenter.org/index.php/detail/essence-1957/> accessed on May 11, 2011.
[3]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 on March 1, 2011.
[4]Jim Powell, "Jump Starting the Economy," *The Washington Times*, September 14, 2010, <http://www.washingtontimes.com/news/2010/sep/10/harding-and-coolidge-18-unemployment/> accessed on March 1, 2011.
[5]Ibid.
[6]Richard Vedder and Lowell Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America*, Holmes & Meier, New York, date, p. 68.
[7]Warren G. Harding, *Rededicating America: Life and Recent Speeches of Warren G. Harding*, The Bobbs-Merill Company, Indianapolis, 1920, p. 139.

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