



The Economy and the National Debt: An Economic and Constitutional Debate

by John Hendrickson

“Blessed are the young, for they shall inherit the national debt.”
Herbert Hoover¹

In 1934, in the midst of President Franklin D. Roosevelt’s New Deal, former President Herbert Hoover broke his silence over the administration’s policies and philosophy of government in his book *The Challenge to Liberty*. *The Challenge to Liberty* was a defense of constitutional government and a philosophical warning against drifting away from traditional limited government. Hoover was not only concerned with the constitutional implications of the New Deal, but also its economic effects upon the nation. As Hoover wrote:

The seeking of opportunities for expending huge sums of public money, upon the theory that this will prime the economic pump, ignores the fact that the priming water is an exhaustion of the living water of public credit. And even beyond that, it enfeebles the power delivered through the pump through stifling confidence and enterprise. Its cost in huge budget deficits must ultimately necessitate huge increases in taxes or manipulation of either currency or credit or all three... So far as history shows, every such borrowing government has had to repay either by a mortgage on the social development of the next generation, or by desperate measures of repudiation through inflation in its own generation. Either leads to devastating invasions of liberty.²

Currently the nation is seeing some signs of economic recovery from the “Great Recession,” but unemployment still stands at 9.4 percent and the looming threat is the growing level of government spending. The national debt is at the \$14 trillion mark and the federal government is running budget deficits in the trillions. “The deficits of \$1.4 trillion in 2009 and \$1.3 trillion in 2010 are, when measured as a share of gross domestic product (GDP), the largest since 1945...,” noted a recent report by the Congressional Budget Office (CBO).³ In addition, the CBO is projecting a budget deficit of \$1.5 trillion for 2011 if spending is not reduced.⁴

The heart of the problem is uncontrolled government spending — not just over “pump-priming” Keynesian-style economic programs — but also entitlement programs such as Social Security, Medicare, and Medicaid. The unfunded liabilities for these programs are “estimated to be between \$60 and \$100 trillion.”⁵ This does not include the financial burden of the Patient Protection and Affordable Care Act (health-care reform), which is projected to add additional costs to the federal budget.

During his State of the Union address, President Barack Obama called for a domestic discretionary spending freeze for five years, and he also called for renewed “investment” in the economy by labeling it our “Sputnik” moment. Congress will also be confronted this spring with the debt issue as they will have to decide whether or not to raise the debt limit. With the national debt and escalating deficits, Congress cannot allow the nation to default, but at the same time the current path is not sustainable for the United States. “If Congress ultimately inclines toward raising the debt limit, then it could, in the same legislation, impose immediate, substantial spending reductions along with strong new rules such as hard spending caps to require continued, sharp spending reductions in future years,” noted J.D. Foster, a Senior Fellow with The Heritage Foundation.⁶

In order to avoid a potential catastrophic financial crisis, the federal government must cut spending. This is crucial not only to solve the fiscal emergency, but also restore the national economy. The current policies of

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government spending will not only create larger deficits, as already demonstrated, but also will not resolve the unemployment situation. John B. Taylor, a Professor of Economics at Stanford University and a Senior Fellow at the Hoover Institution, wrote “that discretionary government interventions — deviations from sound economic principles and policies — have been largely responsible.”⁷ As Taylor argues:

Many government interventions occurred before the panic in the fall of 2008, but in the past two years the government doubled down. We have seen an \$862 billion stimulus, an increase in federal spending to 25% from 21% of GDP, and a corresponding explosion of federal debt. We have the Fed’s unconventional ‘quantitative easings,’ purchases of \$1.25 trillion of mortgage backed securities and \$900 billion of longer-term Treasury bonds. And we have seen hundreds of new regulations in the health and financial sectors.⁸

“The best way to reduce unemployment is to restore sound fiscal and monetary policies,” stated Taylor.⁹ This would include cutting government spending, reducing unnecessary regulations, and further tax reductions. A number of policy ideas have been put forward to bring federal spending under control, including a renewed effort to offer a balanced-budget amendment to the Constitution, Rep. Paul Ryan’s (R-WI) “Roadmap,” and the Spending Reduction Act, which proposes to cut “\$2.5 trillion of spending between now and 2021.”¹⁰ This is in addition to the bi-partisan Simpson-Bowles debt commission proposal, which is a good starting point in addressing spending and entitlement reform.

Just as with the debate over health-care reform, the debate over government spending has both economic and constitutional implications. This debate is between two philosophies of government. “The most severe economic emergencies of the past century were suffered before the elections of 1920, 1932, and 1980.”¹¹ Presidents Warren G. Harding, Calvin Coolidge, Franklin D. Roosevelt, and Ronald Reagan all responded differently. Although today’s economic problems are somewhat different, the solutions offered by Harding, Coolidge, and Reagan were responsible for creating periods of economic prosperity. Their economic policies included reducing spending (especially Harding and Coolidge), cutting taxes, and reducing the national debt. In addition, all three were committed to fighting for and restoring constitutional limited government. The political philosophy of Harding, Coolidge, and Reagan is needed desperately today in order to return the nation back to normalcy. As Hoover stated: “But so far no nation or individual has been able to squander itself into prosperity.”¹²

Endnotes:

¹Herbert Hoover, quoted in, Bob Dole, *Great Political Wit: Laughing (Almost) All the Way to the White House*, New York, Nan A. Talese, 1998, p. 110.

²Herbert Hoover, *The Challenge to Liberty*, New York, Charles Scribner’s Sons, 1934, p. 122-123.

³“The Budget and Economic Outlook: Fiscal Years 2011 to 2021,” *Congressional Budget Office*, Washington, D.C., January 2011, p. 1.

⁴Ibid.

⁵Walter E. Williams, “Can Our Union be Saved?” *Creators Syndicate*, January 26, 2011, <<http://www.creators.com/conservative/walter-williams/can-our-union-be-saved.html>> accessed on February 1, 2011.

⁶J.D. Foster, “Congress Has Time and Options on Debt Limit,” *Backgrounder*, No. 2511, January 27, 2011, The Heritage Foundation, Washington, D.C., p.8.

⁷John B. Taylor, “A Two-Track Plan to Restore Growth,” *Hoover Daily Report*, January 28, 2011, <<http://www.hoover.org/news/daily-report/64636>> accessed on January 31, 2011.

⁸Ibid.

⁹Ibid.

¹⁰Sen. Jim DeMint, Rep. Jim Jordan, and Rep. Scott Garrett, “Can’t reduce federal spending? Here’s a plan to cut \$2.5 trillion by 2021,” *The Washington Examiner*, January 19, 2011, <<http://washingtonexaminer.com/opinion/op-eds/2011/01/cant-reduce-federal-spending-heres-plan-cut-25-trillion-2021>> accessed on February 1, 2011.

¹¹Garland S. Tucker, III., *High Tide of American Conservatism: Davis, Coolidge, and the 1924 Election*, Austin, Texas, Emerald Book Company, 2010, p. 306.

¹²Hoover, *The Challenge to Liberty*, p. 123.

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