

Is Limited Government a Serious Idea or Just Flummery?

by John R. Hendrickson

A public-opinion poll released by CNN showed that a majority of the respondents agreed that the national government is doing too much. The CNN poll reported that 54 percent believed the leviathan was too big, while 37 percent said the national government should do more.¹ The poll also demonstrated that 51 percent believed that the government should promote traditional values, while 43 percent “said it should not favor any particular set of values.”² The debate over the role of the national government has not died down since the American Founding, although we can make the assumption that neither the Federalists nor the Anti-Federalists would have endorsed the current situation. “The Founding Fathers had a *reason* for endorsing the principle of limited government; and this reason recommends defense of the constitutional scheme even to those who take their citizenship obligations lightly.”³

President Clinton famously declared that the era of big government is over, but this has turned out to be a farce. “Discretionary spending grew from \$649 billion in fiscal year 2001 to \$968 billion in fiscal year 2005, an increase of \$319 billion, according to the Congressional Budget Office.”⁴ The Heritage Foundation reports that “for 2005, the federal government spent \$21,878 per household, overall, taxed \$19,062 per household, and ran a budget deficit of \$2,816 per household.”⁵

The Joint Economic Committee in December of 2001 issued a report entitled *Hidden Costs of Government Spending*, which argued that government spending had its fair share of disadvantages. Every dollar the government collects in taxes and every service that it provides takes away from the private sector. As the report states: “...it turns out that the cost of raising an additional \$1 in taxes is not \$1, but closer to \$1.40. On the other hand, reducing government spending by \$1 can benefit the economy by \$1.40, leading to higher economic growth.”⁶

Historically speaking the best proof of the success of limited government and governing by constitutional principles comes directly from the administration of President Calvin Coolidge. Coolidge and Treasury Secretary Andrew Mellon advocated and implemented a policy of slashing the federal budget and taxes. As Cal Thomas noted:

The Revenue Act of 1926 — engineered along with Treasury Secretary Andrew Mellon — was a stunning success. In 1922, the effective tax rate on the wealthy was 50 percent, who paid a total of \$77 million into the Treasury. By 1927, Coolidge had cut their tax rate to 20 percent — but the same group paid \$230 million in taxes. Meanwhile, the total tax burden on people making less than \$10,000 fell from \$30 million in 1923 to less than \$20 million in 1929.⁷

The Coolidge administration was the only successful administration of the 20th century which governed by the principles of limited government. The change of course came with the disastrous consequence of the Great Depression when the American public erroneously lost faith in capitalism and embraced government-run solutions from Washington, D.C.

Fred Barnes, executive editor of *The Weekly Standard*, famously coined the phrase “big-government conservatism.” The idea supports government spending on programs such as education to implement supposed conservative means. Advocates of this idea believe that the electorate does not want limited government, and thus considers it an unrealistic and old fashioned idea.

The perfect example of big government conservatism comes from President George W. Bush’s No Child Left Behind Act, “which is responsible for the 137% increase in education spending from 2001 through 2006.”⁸ It is interesting to point

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out that President Ronald Reagan targeted the Department of Education for elimination and the Constitution does not list education as a responsibility of the national government. The question has to be asked whether more government involvement in education is actually improving schools, making them worse, or leaving them languish. It is clear that privatization, voucher reforms, and school-choice initiatives have fostered a more healthy and competitive educational system.

"The economic justification for government spending must be that the government can provide some goods better than the private sector."⁹ Most people look to government to provide, maintain, and support a good transportation, education, and social service system. Nationally speaking the government has to provide for the national defense and to maintain the armed forces, but should government compete with the private sector? Our healthcare system is considered top notch in the world. In fact, many world leaders receive treatment at the Mayo Clinic. In addition, private schools and colleges have shown promising results of educational excellence. Hillsdale College, which accepts no federal funding, is one of the top liberal arts institutions for higher education in the nation.

The debate over government spending also comes down to values. Does limited government foster traditional values and morality? Libertarians and Conservatives would certainly agree that limited government fosters values with the caveat that human nature in general is blemished through original sin. An important metaphysical component of conservatism is the idea that mankind is not perfectible and that government power, no matter how well intended, does not lead to perfection. Progressives and liberals hold the opposite view. Progressives have championed the force of the national government to pull us out of depressions and end poverty with bureaucratic solutions that create only one assurance, that is, higher taxes and more bureaucracy.

Limited government does represent a more virtuous policy when championing American values. Former Texas Senator Phil Gramm correctly argued that economic and social conservatism is on the same page. As Gramm stated: "...that what gives economic freedom, what unleashes the creative genius of our people, also empowers us and makes us responsible and ultimately affects our values and our virtues."¹⁰ Justice Antonin Scalia commented that no society, current or historical, has possessed high degrees of intellectual and political freedom alongside a high degree of state control over the citizen's economic life.¹¹ A comparison can be made with European

In remembrance of Milton Friedman's contribution to liberty and freedom, January 29, 2007 has been declared Milton Friedman Day.

For more information on Milton Friedman and his ideas check your local PBS station for the national showing of "The Power of Choice: The Life and Ideas of Milton Friedman"

governments, which are far more advanced in terms of the welfare state and more secularized compared with the United States.

As Sen. Gramm noted:

Limited government not only has produced unlimited opportunity, it has brought unparalleled prosperity, and it has also helped strengthen the inherent values that Americans brought from the Old World. It has helped to strengthen self-reliance, individual responsibility, and authentic compassion.¹²

Principles of limited government translate into principles that facilitate and drive virtues. The Founders understood that Judeo-Christian principles drive liberty and morality. New Deals, Fair Deals, and Great Societies have hindered rather than improved the socio-economic conditions of society. Big government does the opposite of the intended purpose, as Sen. Gramm eloquently explains:

I think that over the last 40 years, as government has become ever more dominant in American society, as government has created programs to meet our every need, to indemnify our every mistake, our social safety net has become a hammock, Government programs, with all the good intentions in the world, were established to help people and have changed the way people behave. They have corrupted our values, and we have looked more and more to government to take care of us, we have become what Margaret Thatcher called a “nanny state.” And as we have turned to government to be our keeper, to be our indemnifier, we have turned away from our family and our faith. As we have rendered unto Caesar, we have stopped rendering unto God.¹³

The CNN poll is reassuring for those still working toward limited-government principles. The recent midterm elections have offered additional proof that the electorate is tired of reckless spending. Limited government is a serious idea and it has been proven to work historically, and history has shown that the electorate demands limited government. The United States was founded on the ideas of limited government, not on ideas of big government to meet conservative objectives. “I never apologized for the American free enterprise system,” said Senator Gramm.¹⁴ The proper role of government should be to help people solve their problems, not make them dependent on their problems. In other words, government-dependence programs only fosters the condition even more; limited-government solutions seek to provide a cure to the problem. The old saying still holds true: If you want to feed a hungry man, give him a fish; if you want to feed him for life, teach him how to fish. Individuals are not just economic creatures, but spiritual creatures as well. Limited-government principles understand the importance of economic liberty, but more importantly those principles emphasize the spiritual side of mankind. Practically and philosophically limited government is a serious and realistic idea, an idea which many Americans have sacrificed and fought for, an idea worth fighting for.

(Endnotes)

¹ CNN.com, “Poll: Majority believes government doing too much,” October 2006, <<http://www.cnn.com/POLITICS/10/27/poll.government/index.html>> (November 6, 2006).

² Ibid.

³ Barry M. Goldwater, *The Conscience of a Conservative*, Victor Publishing Company, Shepherdsville, Kentucky, 1960, p. 16.

⁴ Quoted from CNN.com

⁵ Brian M. Riedl, “Federal Spending—By the Numbers,” The Heritage Foundation, February 6, 2006, p. 3.

⁶ The Joint Economic Committee, “Hidden Costs of Government Spending,” United States Congress, December 2001.

⁷ Cal Thomas, *Silent Cal Speaks: Why Calvin Coolidge is the Model for Conservative Leadership Today*, The Heritage Lectures, No. 576, The Heritage Foundation, Washington, D.C., 1996.

⁸ Riedl, p. 4.

⁹ The Joint Economic Committee, p. 3.

¹⁰ Senator Phil Gramm, “Freedom and Virtue,” The Heritage Lecture Series, #523: The Heritage Foundation: Washington, D.C., 1995.

¹¹ Justice Antonin Scalia, “Economic affairs as Human affairs,” in David Boaz (ed.), *Toward Liberty: The Idea that is Changing the World*, CATO Institute, Washington, D.C., 2002, p. 330.

¹² Gramm.

¹³ Ibid.

¹⁴ Ibid.

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Iowa's Monthly State Revenue:

In the current fiscal year total gross cash receipts increased to \$143.8 million, which is a 5.4% increase compared to the previous fiscal year. The REC estimated that FY 2007 will bring in about \$6 billion. In addition, the report announced that the State will have an extra \$370 million for Legislators to work with.

Iowa's Estimated Net Yearly Revenue:

Revenue for FY07 is estimated at \$6 billion. This estimate was set by the Revenue Estimating Conference on December 12, 2006. This estimate is a 4.9% increase from FY 2006, which is an increase of \$284 mil.

Source: Legislative Fiscal Bureau, "Monthly Revenue Memo," Revenue Estimating Conference Report

Iowa's Unemployment:

Iowa's unemployment rate fell to 3.4% in November. This was a decrease from October's rate which was 3.6 percent. In October jobs declined by 2,700, but this trend is moderately reversing with about 3,600 new jobs that were reported in November. Trade and transportation fields saw the greatest increase in employment numbers, which is 3,200 higher than last November. Construction, leisure and hospitality, and health and education all reported increases. In fact most sectors reported growth with the exception of information. The financial sector grew by 2,300 and government increased by 1,800 over the year.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate News."

Consumer Confidence Index:

The Consumer Confidence Index rose in December after a short decline in November. Iowa's region also showed growth since November. The Conference Board reported that even with the moderate growth in confidence in December it is not a green light to "signal that better times are ahead." The December survey does show that consumers are more optimistic as the economy enters into 2007. In addition the survey reported that the labor market has improved, which is a direct result of the nation's low unemployment rate. Consumer confidence in the nation's business conditions also improved slightly.

Source: Conference Board, "Consumer Confidence Survey."

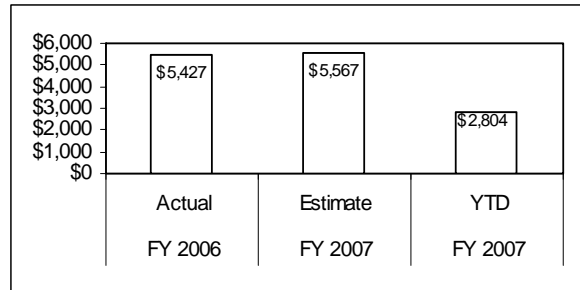
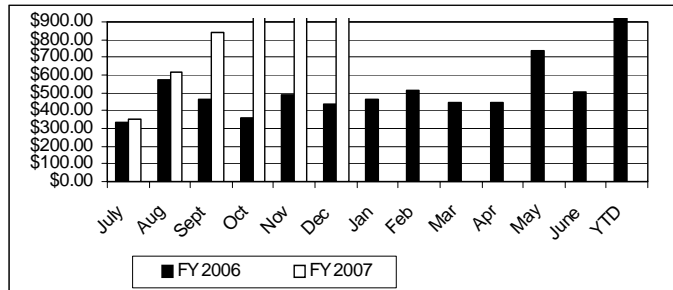
Consumer Price Index, Monthly Change:

The CPI was unchanged in November after a period of decreasing numbers in the fall. This followed a decline of 0.5% over the last few months. In November the indexes for food and beverages, transportation, apparel, and education and communication all declined. The index for recreation rose 0.1%, while housing was unchanged. In 2006 the index for all urban consumers rose for the first eleven months of the year. The BLS has also reported that the unemployment rate has remained low at 4.5% in November. In addition, payroll job gains have averaged about 138,000 per month.

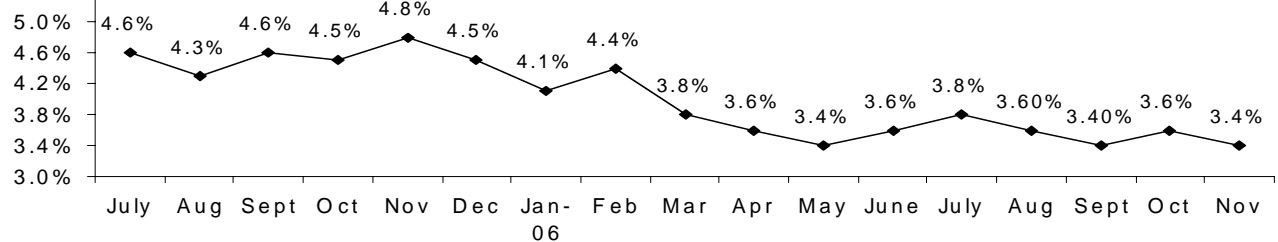
Source: U.S. Department of Labor, Bureau of Labor Statistics

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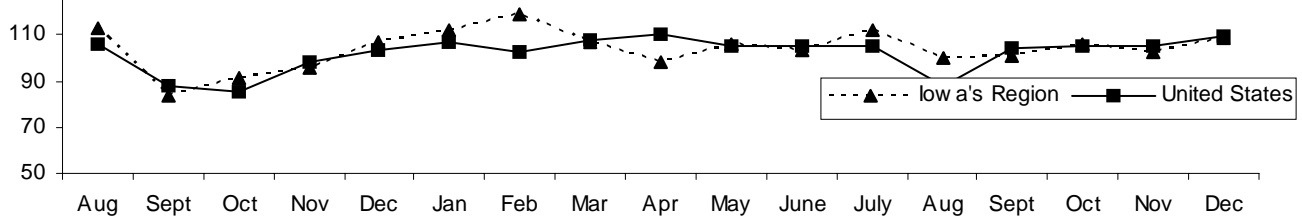
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue



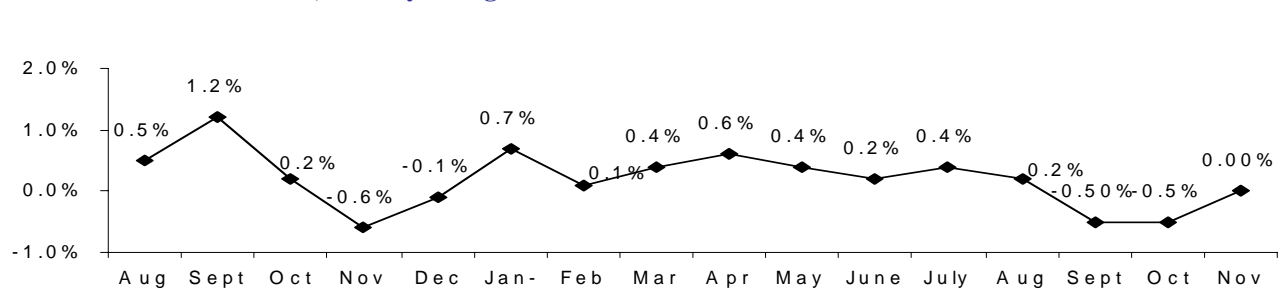
Iowa's Unemployment



Consumer Confidence Index



Consumer Price Index, Monthly Change



**REVENUE ESTIMATING CONFERENCE
ESTIMATE OF GENERAL FUND RECEIPTS**

Historical Figures

TAX RECEIPTS	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>% Change</u>
	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>FY 06 Act. Vs</u>
						<u>FY 05 Act.</u>
Personal Inc. Tax	2,372.1	2,417.6	2,592.3	2,782.3	2,854.2	2.6%
Sales Tax	1,453.0	1,450.4	1,465.6	1,812.3	1,881.1	3.8%
Corporate Income Tax	N/A*	N/A*	N/A*	N/A*	N/A*	N/A*
Inheritance Tax	221.2	237.0	234.8	280.9	348.6	24.1%
Insurance Premium Tax	100.3	88.1	80.1	78.4	73.1	-6.8%
Cigarette Tax	135.4	142.2	138.2	130.9	121.4	-7.3%
Tobacco Tax	88.0	88.1	87.1	87.4	89.5	2.4%
Beer Tax	7.1	7.4	8.1	8.7	9.2	5.7%
Franchise Tax	13.8	14.0	14.0	14.0	14.2	1.4%
Miscellaneous Tax	30.9	35.3	38.0	35.4	35.5	0.3%
Total Tax Receipts	1.5	1.1	1.0	0.6	0.6	0.0%
Other Tax Receipts	4,661.8	4,735.4	4,925.9	5,230.9	5,427.4	3.8%
Institutional Payments	48.6	16.2	13.7	12.7	13.0	2.4%
Liquor Profits	47.5	49.0	58.0	59.0	63.8	8.1%
Interest	25.3	18.1	7.6	9.7	17.5	80.4%
Fees	70.2	72.2	79.8	72.3	76.2	5.4%
Judicial Revenue	51.9	54.7	57.6	59.2	63.1	6.6%
Miscellaneous Receipts	42.2	41.3	55.3	65.1	49.7	-23.7%
Racing & Gaming	60.0	60.0	60.0	60.0	60.0	0.0%
Total Other Receipts	345.7	311.5	332.0	338.0	343.3	1.6%
Total Tax & Other Receipts	5,007.5	5,046.5	5,257.9	5,568.9	5,770.7	3.6%
Transfers						
Lottery	40.0	38.9	43.9	49.3	79.6	61.5%
Lottery-Touchplay						
DHS Intergovernmental Transfers						
Other Transfers*	265.8	90.0	13.6	39.1	64.4	64.7%
Total Transfers	305.8	128.9	57.5	88.4	144.0	62.9%
Total Receipts & Transfers	5,313.3	5,175.8	5,315.4	5,657.3	5,914.7	4.5%
Accruals (net)	31.7	(44.9)	83.6	(34.1)	54.0	
Refunds	(663.1)	(647.3)	(715.0)	(696.9)	(586.0)	-15.9%
Net Receipts	4,681.9	4,483.6	4,684.0	4,926.3	5,382.7	9.3%

Source: Iowa Department of Management, Revenue Estimating Conference

**REVENUE ESTIMATING CONFERENCE
ESTIMATE OF GENERAL FUND RECEIPTS**

Estimates from October 16, 2006

Estimates from December 12, 2006

1016 FY07 <u>ESTIMATE</u>	%Change FY07 Est. vs. FY06 Est.
2989.3	4.7%
1950.0	3.7%
N/A	N/A*
405.4	16.3%
73.1	0.0%
110.0	-9.4%
91.3	2.0%
9.4	2.2%
14.4	1.4%
34.4	-3.1%
1.0	66.7%
5,678.3	4.6%
13.0	0.0%
65.8	3.1%
18.5	5.7%
69.1	-9.3%
64.3	1.9%
34.4	-30.8%
60.0	0.0%
325.1	-5.3%
6,003.4	4.0%
54.0	-32.2%
88	-86.3%
62.8	-56.4%
6,066.2	2.6%
16.6	-7.4%
(542.6)	2.9%
5,540.2	21.0%

12/12 REC FY07 <u>ESTIMATE</u>	%Change FY07 Est. vs. FY06 Actual	1006 REC FY08 <u>ESTIMATE</u>	%Change FY08 Est. vs. FY07 Est.
3,027.0	6.1%	3,150.3	4.1%
1,931.9	2.7%	2,023.1	4.7%
N/A*	N/A*	N/A*	N/A*
433.3	24.3%	420.6	-2.9%
74.4	1.8%	77.4	4.0%
110.0	-9.4%	115.5	5.0%
89.5	0.0%	90.4	1.0%
9.7	5.4%	10.0	3.1%
14.5	2.1%	14.6	0.7%
34.4	-5.9%	34.4	3.0%
1.0	66.7%	1.0	0.0%
5,724.7	5.5%	5,937.3	3.7%
12.6	-3.1%	12.6	0.0%
65.8	3.1%	67.8	3.0%
23.3	33.1%	23.3	0.0%
69.1	-9.3%	62.6	-9.4%
64.3	1.9%	67.9	5.6%
35.8	-28.0%	38.3	7.0%
60.0	0.0%	60.0	0.0%
330.9	-3.6%	332.5	0.5%
6,055.6	4.9%	6,269.8	3.5%
54.0	-32.2%	54.0	0.0%
8.4			
62.4	-87.0%	8.4	
	-56.7%	62.4	
6,118.0	3.4%	6,332.2	3.5%
17.0	-3.2%	12.0	4.4%
(567.6)	3.4%	(592.6)	3.3%
5,567.4	22.7%	5,751.6	3.3%

* Past Revenue Estimating Conferences calculated sales and use tax separately, however beginning with the December 2004 report the two were summed into one number.

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