

LIMITS



On Power and the Use of Coercion

Greater Freedom the Answer to Economic Woes

by William W. Beach

The United States no longer ranks among the world's free economies. For the first time in its 16-year history, the "Index of Economic Freedom" (published by the Heritage Foundation and the *Wall Street Journal*) grades our economy as only "mostly free."

For Americans who haven't suffered job-loss or pay cuts in the last two years, "mostly free" may feel little different from "free." But for the nearly 20 million who lack work or the millions more who find themselves earning a lot less, this news can help answer the question, "Why me?"

Numerous studies show that nations create more jobs and more prosperity the more

they free their economies. The connection is especially important for poor people. New research from the National Bureau of Economic Research shows — over the last 40 years — a strong connection between the worldwide march toward greater economic freedom and the massive reduction in poverty. Since 1970, global poverty has dropped 80 percent.

But when economic freedom is repressed, the climb out of poverty is much more difficult. The U.S. decline to "mostly free" status means our economy offers less opportunity for job seekers — especially those lacking career experience.

The U.S. needs to add about 125,000 net new jobs each month just to keep up with high school and college graduates entering the work force and those looking to re-enter after raising a family or retraining for

a new career. When average job creation falls below this level, the unemployment rate usually rises.

America's Index score declined in six of the 10 factors used to calculate the economy's overall level of freedom. Here's what declined, and why:

1. Government spending: Massive increases in overall government spending dropped the score for this component to 58 on a 100 point scale. Increases in government spending withdraw capital from the job-creating private sector. In 2009 alone, spending grew by 20 percent over previous year levels, an astounding increase in government's "weight" on the economy.

2. Monetary freedom: Aggressive government intervention in major sectors of the economy — housing,

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financial, and automotive — greatly distorted prices. This only encourages inefficient economic behaviors. For example, the bailout of Chrysler and GM kept these firms from undergoing needed reorganization and liquidation. Instead, capital and labor were squandered on propping up business models and products rejected by the buying public. This leaves prices artificially high. The monetary freedom score tumbled to 78.1 from 84.

3. Financial freedom: Interventions in financial markets also keep the economy from operating at optimal levels. This past year saw the feds take over many key financial firms and take unprecedented (in this country) steps to control private business decisions, such as fair compensation for executives. The financial freedom score dropped 10 points, to 70.

4. Property rights: The sanctity of contracts — particularly an individual's right to own property — is central to economic freedom. Those rights were significantly undermined by the federal takeover of financial and automobile companies. The feds ran roughshod over shareholder

rights, instead granting sweetheart deals to unions and other power players. The score in this category fell by 5 points.

5. Investment freedom: The freedom to invest one's property stems directly from the enjoyment of property rights. Restrict that freedom, and growth rates fall below their potential. Unfortunately, the federal government tightened restrictions limiting the ability of foreign investors to invest in U.S. firms.

6. Fiscal freedom: Much of the developed world continued to reduce tax rates on personal and business income. The United States fell further behind by doing nothing. Today our corporate income tax rates are the highest in the world (after adding in state profits taxes). Our personal income tax rates are increasingly uncompetitive. High tax rates restrict economic growth by discouraging investment in new business ventures and the creation of new, labor-saving goods. While the U.S. score in this category didn't fall, many of our key economic competitors did better.

The U.S. economy is righting itself from the most severe recession since the 1930s. But it's doing so at a glacial pace. Public policies that reduce the free use of personal property and retard the entrepreneurial risk-taking only lengthen the recovery process.

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The Coburn Criteria for Public Policy

by John Hendrickson

United States Senator Tom Coburn (R-OK), who by trade is a medical doctor, is one of the most constitutionally minded members of Congress. Senator Coburn has a record of fighting and standing for constitutional government. In this current era of progressive reform Senator Coburn is a voice of one calling in the wilderness for a return to constitutional limited government. Indeed, Senator Coburn is joined by a limited number of other constitutional minded members of Congress who still believe in limited government and free enterprise. Senator Coburn has provided a five point check list based on the Constitution in which he judges legislation. “The Coburn Principles” should serve as a policy guide for all members of Congress.

In January 2007 Senator Coburn listed five principles on how he will measure legislation that is before the Senate. The five principles include:

- “the bill must conform to the vision of a limited federal government set forth by the Founding Fathers and the Constitution;
- if a bill creates or authorizes a new federal program or activity, it must not duplicate an existing program or activity;
- if a bill authorizes new spending, it must be offset by reductions in real spending elsewhere;
- if a program or activity currently receives funding from sources including but not limited to the

federal government, a bill shall not increase the federal government’s share;

- if a bill establishes a new foundation, museum, cultural or historic site, or any other entity that is not an agency or a Department, federal funding should be limited to initial start up costs with a private endowment for private funding.”¹

Senator Coburn is also a sponsor of the Enumerated Powers Act, which “would require Congress to specify the source of authority under the United States Constitution for the enactment of laws, and for other purposes.”² The Enumerated Powers Act has been introduced in each Congressional session since 1995 by Representative John Shadegg (R-AZ), but the bill has not been passed into law.³

“The Constitution — the font of all the federal government’s powers — should play a leading role in the legislative process, but today it is conspicuous in the Capitol only for its absence from both chamber’s debates,” noted Andrew Grossman, who serves as Senior Legal Policy Analyst at The Heritage Foundation.⁴

The current scope and direction of legislation from Democrat leaders in Congress as well as the policy objectives being advocated by President Barack Obama has further brought forth the need for a serious debate on constitutional principles.

Currently the economy, defi-

cit, and government spending are the major domestic policy issues that the nation must resolve.

President Obama has proposed a budget of \$3.8 trillion, the federal government ran a deficit of \$1.4 trillion in 2009, and the 2010 deficit is projected to hit \$1.6 trillion. The economy is also struggling to recover, job growth remains shaky, and the market has reflected the uncertainty of the private sector as it reacts to the policy agenda of the Democrats.

The heart of all of these policy debates, whether it is the economy, health care, environment, or regulation, is a battle over ideas and how policymakers view the Constitution. The progressive view of the Constitution is currently guiding the policy ideas of the Democrats, and the Administration is following in the path of President Franklin D. Roosevelt. “Roosevelt held that the primary task of modern government is to alleviate citizens’ want by guaranteeing their economic security.”⁵ As Constitutional scholar Matthew Spalding wrote:

The objective of progressive thinking, which remains a major force in modern-day liberalism, was to transform America from a decentralized, self-governing society into a centralized,

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Rising Debt Ceiling Raises U.S. Default Worries

by Thomas Cheplick

The federal debt ceiling is set to rise to close to \$14 trillion just before Valentine's Day, which will move America one step closer to default, according to one renowned economist.

"[America] is going to default on its debt," said David Henderson, editor of *The Concise Encyclopedia of Economics* and an economics professor at the Naval Postgraduate School in Monterey, California. He is a protégé of Nobel Prize-winning economist Paul Samuelson of MIT, who recently died at age 94.

"At some point, with the raising of the federal debt ceiling level, payments on Medicare, Medicaid, foreign adventures, . . . it just won't be sustainable," Henderson said. "Already they are set to be paying, by 2019, \$700 billion on interest alone on the debt. The government will not be able to raise funds without paying substantially higher [interest] rates, too, so instead they may [say], 'Hey, maybe let's not pay and save a chunk.'"

Stopping Payments

The government could do this in several ways, including paying no interest and only some principal, paying some interest on no principal, or paying nothing on interest or principal, Henderson added.

"If it happened, it would happen very quickly," he said.

Syndicated columnist and longtime political analyst Cal Thomas thinks Congress's decision to raise the debt ceiling shows the lawmakers do not understand basic laws of economics.

"[Raising the national debt ceiling] is part of a larger problem, and, that is, we continue to spend beyond our means," Thomas said in an interview for this story. "The world, predominantly China in this case, cannot continue to buy U.S. debt. We should be concerned. No nation can live constantly spending money it does not have."

"There are laws of economics, laws of nature, and if you violate economic laws, you splat economically," he added. "People and nations cannot live like this."

Expects Problem to Persist

Henderson says the national debt and federal budget deficits will be perennial issues. Unless many social insurance programs are reformed and more economic deregulation is implemented, there's little chance America will avoid default, he says.

"We would need a 'Ross Perot-squared' politician, in a sense, to fix this," he said, referring to the billionaire businessman from Texas who ran for President in 1992 as a third-

party candidate and received 19 percent of the popular vote, the highest percentage for a third-party candidate since Teddy Roosevelt in 1912. Perot's major themes were attacks on soaring government spending, entitlement program costs, and indebtedness.

Henderson said he tells his college students "the federal debt and deficit are going to be the major public policy issue for the rest of their lives." He warns unless the government raises the ages for Medicare and Social Security eligibility and takes other steps to control entitlement program costs, "avoiding the problem cannot be done. Things would have to be aligned just right; otherwise it is more likely for some kind of default."

Deficits Increasing Under Obama

Thomas notes Democrats who protested President George W. Bush's budget deficits have remained nearly silent in the face of President Obama's much larger budget gaps. The federal government ended the last fiscal year with a \$1.4 trillion budget deficit, and Obama projects \$1 trillion annual budget deficits for the foreseeable future.

"I find it interesting that Democrats expressed much alarm when the budget deficit under President Bush was around \$450 billion but now are

not raising a peep when it is in the trillions," Thomas said. "I think there ought to be a referendum or a public vote on whether we want the Congress to continue to mortgage our financial future, because the main problem is the politicians just do not care."

Bipartisan Vote Buying

Thomas says both parties are guilty.

"They want to buy votes and do not care [about the deficit]. Democrats want to expand entitlement programs because giving more people a government check wins them votes in the next election. Republicans have done the same," Thomas said.

"Politicians want all the perks of office and are willing to do this to keep their job. That is what it is all about. They need to be able to dole out favors to keep their perks. The Founding Fathers understood this, which is why they were in favor of limited government," he added.

Henderson agrees politicians lack incentives to combat the budget deficit and national debt. As a result, he says, they are not acting in the nation's long-term interests.

"There is just no incentive for any individual within the government to care about this," Henderson said. "Look at how cavalier President Bush was and now also how President Obama is. . . . Then just look at Congress. This is the reason we will get into a default—because we are not acting in the long-term" interest.

Thomas also blames the belief many policymakers have in Keynesianism, the economic approach promoted by British thinker John Maynard Keynes in the 1930s. He advocated government spending and deficits to stimulate economic growth.

He calls it "a cultlike philosophy that encourages debts and says there is only one economic pie and it is all about what share of the pie people take," he said.

Thomas Cheplick writes from Cambridge, Massachusetts. This article originally appeared in the March 2010 edition of the Heartland Institute's Budget & Tax News and is reprinted with permission.

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progressive society focused on national ideals and the achievement of 'social justice.' Sociological conditions would be changed through government regulation and society and the economy; socioeconomic problems would be solved by redistributing wealth and benefits.⁶

In the aftermath of President Roosevelt's New Deal and President Lyndon B. Johnson's Great Society, President Ronald Reagan was the first to challenge the legacy of the New Deal. The Reagan administration pushed to restore limited government and to challenge the progressive notion that the Constitution was a "living" document that changes with the times. President Reagan in an act of great symbolism even hung a portrait of President Calvin Coolidge in the cabinet room to represent the philosophy of his administration.

Although President Reagan was not totally successful in his efforts to curb the size of government and reduce spending, his administration did create a period of economic expansion as well as initiate an offensive against progressive

constitutional philosophy with his support of original intent. The challenge for conservative and libertarian policymakers is to apply constitutional principles to today's policy debates and to stand for principle. Senator Coburn has been an example of steadfast leadership for constitutional limited government and his ideas, along with Representative Paul Ryan's (R-WI) Roadmap and Senator Jim DeMint's (R-SC) American Option plans, are examples of policy ideas that are rooted in constitutional principles.

America needs a renewed commitment to constitutional government. Senator Coburn's principles and commitment to limited government and free enterprise are an example of how we need to evaluate policy and be rooted in the Constitution. Perhaps the current Tea Party and Tenth Amendment movements that are sweeping the nation are a sign of a new commitment to constitutional government.

Endnotes

¹Senator Tom Coburn, "The Coburn Principles," January 4, 2007, <<http://coburn.senate.gov>> (February 20, 2010).

²Enumerated Powers Act, in Library of Congress, THOMAS, <<http://thomas.loc.gov/cgi-bin/query/z?c111:S.1319>> (February 20, 2010).

³Andrew M. Grossman, "The Enumerated Powers Act: A first step toward constitutional government," *Legal Memorandum*, No. 41, The Heritage Foundation, June 23, 2009.

⁴Ibid.

⁵Matthew Spalding, "A Republic, If you want it: The Left's overreach invites the Founders' return," *National Review*, February 8, 2010, p. 35.

⁶Ibid., p. 34.

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An Economic Solution Based on History

by John Hendrickson

In the current debate over national economic policy, conservatives have history on their side. Conservatives can point to the Constitution which specifies a limited government based on federalism, and they can look to numerous political leaders and scholars who have provided economic policy blueprints that are based upon constitutional principles. During the twentieth century the presidential administrations of Warren G. Harding, Calvin Coolidge, John F. Kennedy, and Ronald Reagan all pursued a policy of tax reduction to solve an economic crisis. The best examples that policymakers should emulate are Harding, Coolidge, and Reagan—all of whom were conservatives who believed in limited constitutional government based on free enterprise.

In 1921 President Warren G. Harding faced an economic recession as the nation was coming out of World War I. Harding faced an out-of-control budget, high taxation, and national debt. In response to the recession, Harding did not call for a progressive overhaul, but rather he and Secretary of the Treasury Andrew Mellon pushed tax reductions, spending reductions, reducing the national debt, and eliminating excessive regulation. President Coolidge continued Harding's policies and along

with Mellon he slashed tax rates, cut government spending, and paid down the debt, and the result was budget surpluses, low unemployment, and a period of economic expansion or Coolidge prosperity.

President Ronald Reagan also faced an economic recession with high unemployment and inflation, and just as with Harding, he did not call for bold experimentation, but rather stated that government was the problem rather than the solution. The Reagan administration, although not successful at curbing the size of government and spending, did cut tax rates which resulted in an economic expansion that lasted into the next decade.

Policymakers can learn a lot from studying the economic policy of the Founding Fathers such as Alexander Hamilton as well as those presidential administrations that practiced sound economic principles. During the presidential campaign of 1980, Ronald Reagan issued eight economic policy objectives that are still sound today. These eight principles include:

- “We must keep the rate of growth of government spending at reasonable and prudent levels;
- We must reduce personal income tax rates and accelerate and simplify depreciation schedules for business in an orderly, systematic way to provide incentives for work, savings, investment, and productivity;

- We must review regulations that affect the economy, and change or eliminate them to encourage economic growth;
- We must establish a stable, sound, and predictable monetary policy;
- We must promote the export of American products abroad;
- We must revitalize American industry;
- We must adopt an energy policy that will allow our economy to grow, and our standard of living to rise;
- And we must restore confidence by following a consistent national economic policy that does not change from month to month.”¹

The Harding, Coolidge, and Reagan approach to economic policy is a solution that will restore the economy, and conservatives need to remember that this battle is not just over policy, but also ideas.

Endnotes

¹Ronald Reagan, “A vital economy: jobs, growth, and progress for Americans,” *The Public Papers of President Ronald W. Reagan*, Ronald Reagan Presidential Library, <<http://www.reagan.utexas.edu/archives/reference/10.24.80.html>> (February 22, 2010).

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Those paying the heaviest price for this sluggishness are the millions of unemployed Americans waiting for the recovery to blossom, and the millions more who hope to regain economic ground lost over the last two years. Government policies that erode our economic freedom won't spark the desired recovery. They will only delay it, and prolong the human suffering.

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Question of the Quarter:

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