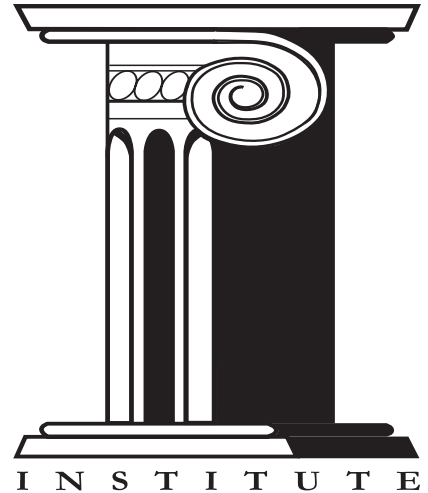


LIMITS



On Power and the Use of Coercion

Will Obama Ever Learn Economics From Reagan?

by Edwin Meese, III, and Michael Needham

The centennial of Ronald Reagan's birth earlier this year brought an unusual sight: a round of press reports noting President Obama's admiration for his predecessor, including one he penned for this newspaper.

Despite their stark differences on policy, Obama praised Reagan for how he led the nation "through an extremely difficult period, with economic hardship at home and very real threats beyond our borders." And, lo and behold, many pundits are now comparing what they call Reagan's willingness to compromise on taxes to what they say is the intransigence of today's GOP.

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A cautionary tale

Leading the nation through hard times wasn't easy. We'd like to suggest that President Obama take a closer look at how President Reagan dealt with that "economic hardship," and how he steered the nation toward what would turn into its longest peacetime economic expansion. It's a cautionary tale — one that involves the greatest domestic error of his administration.

In 1981, President Reagan's plan for revitalizing the economy was a four-fold one:

- 1) Reduce tax rates across the board.
- 2) Decrease unnecessary regulations.
- 3) Work with the Federal Reserve to maintain stable monetary policy.
- 4) Slow the growth of federal spending.

President Reagan got his tax-rate cuts through Congress

later that year. But because they were being phased in gradually, the economic pain they were designed to alleviate lingered well into 1982. High deficits persisted, and he faced enormous pressure to raise taxes.

The President had no interest in increasing taxes, but he agreed to consider some kind of compromise with Congress. His representatives began meeting with members of House Speaker Tip O'Neill's team to find some way to hammer out a deficit-reduction pact. So began what, in our opinion, became the "Debacle of 1982."

From the outset, the basic idea of the GOP participants was to trade some kind of concessions on the tax front for a Democratic agreement on spending cutbacks. The negotiators knew that Ronald

continued on page 2

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Dr. Don Racheter,
President
John Hendrickson,
Editor

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Will Obama Ever Learn Economics From Reagan? by Edwin Meese, III, and Michael Needham

Reagan would be hard to sell on any tax hikes. So they included a ploy they felt might overcome his resistance: a large reduction in federal spending in return for a modest rise in business (but not individual) taxes.

The ratio in the final deal — the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) — was \$3 in spending cuts for every \$1 in tax increases. It sounded persuasive at the time. Believing it to be the only way to get spending under control, most of the President's colleagues signed on. He disliked the tax hikes, of course, but he agreed to it as well.

The cuts never came

You don't have to be a Washington veteran to predict what happened next. The tax increases were promptly enacted — Congress had no problem accepting that part of the deal — but the promised budget cuts never materialized. After the tax bill passed, some Legislators of both parties even claimed that there had been no real commitment to the 3-to-1 ratio.

In fact, spending for fiscal year 1983 was some \$48 billion higher than the budget targets, and no progress was made in lowering the deficit. Even tax

receipts for that year went down — a lingering effect of the recession, which the additional business taxes did nothing to redress.

Fortunately, the individual income tax-rate reductions that had been passed the year before remained intact. And as they took effect, the economy began its remarkable turnaround. The recovery of 1983-84 was strong enough that it paved the way for President Reagan's landslide election to a second term.

More than two years into President Obama's presidency, however, the prospects of Reagan-style recovery seem remote, to say the least. Rather than learning pro-growth lessons from President Reagan, he is creating another 1982 moment, seeking to lure Republicans into accepting another tax increase for illusory spending cuts.

Taxing our way to prosperity isn't the answer. It never has been. If our children and grandchildren are to live in a free and prosperous America, congressional Republicans must not negotiate and accept a deal that raises taxes. That's why The Heritage Foundation last year created Heritage Action for America — to ensure that members of Congress fight for the advance of freedom and are held to account.

President Reagan "had faith in the American promise," President Obama notes. Reagan demonstrated that faith by trusting the American people

continued on page 8

Debt Deal: Politicians Win, Middle Class Loses

by Daniel J. Mitchell

America is on a path to becoming a Greek-style welfare state. Thanks to the Bush-Obama spending binge, the burden of federal spending has climbed to about 25% of national economic output, up from only 18.2% of GDP when Bill Clinton left office.

But that's just the tip of the iceberg. Because of a combination of demographic forces and poorly designed entitlement programs, federal spending could consume as much as 50% of economic output by the time the baby boom generation is fully retired.

One symptom of all this excessive spending is that Washington is awash in red ink. We're now in our third consecutive year of trillion-dollar deficits and the politicians just had to increase the nation's \$14.3 trillion debt limit.

But it wasn't easy getting there. Just as happened with the "government shutdown" debate in March, Republicans and Democrats had fierce disagreements over the right approach. They bickered until the last minute and then finally agreed to more than \$900 billion of supposed spending cuts and the creation of a "supercommittee" charged with proposing another \$1.5 trillion of deficit reduction.

So which side won this fight? Republicans are bragging that they got spending cuts today, a promise of spending cuts in

the future, and no tax increases. Democrats, meanwhile, are chortling that they took the debt issue off the table until after the 2012 elections, protected their favorite programs, and created a supercommittee that will seduce the GOP into a tax increase.

Ignore that bragging. The easy answer is that politicians of both parties were the victors and taxpayers are the ones left in the cold.

In other words, the budget deal was a victory for the political establishment.

Here's why Republicans are winners. They get to tell their tea party activists that they forced Obama to cut spending. It doesn't matter that federal spending will actually be higher every year and that the cuts were based on Washington math (a spending increase becomes a spending cut if outlays don't climb as fast as some artificial benchmark).

They also get to tell their anti-tax activists that they held the line. Perhaps most important, the supercommittee must use the "current law" baseline, which assumes that the 2001 and 2003 tax cuts expire at the end of 2012. But why are GOPers happy about this, considering they want those tax cuts extended? For the simple reason that Democrats on the supercommittee therefore can't use repeal of the "Bush tax cuts for the rich" as a revenue raiser.

This means that most Republican incumbents are well-positioned to win re-election.

Here's why Democrats are winners. Thanks to the magic of government math, despite all the talk of budget cuts, discretionary spending will be more than \$100 billion higher in 2021 than it is this year. And since defense spending in Iraq and Afghanistan presumably is winding down, this means even more money will be available for domestic programs.

In addition to telling the pro-spending lobbies that the gravy train is still on the tracks, they also get to tell the class-warfare crowd that there's an improved likelihood of higher taxes for corporate jet owners and other "rich" people. Notwithstanding GOP assertions, nothing in the agreement precludes the supercommittee from meeting its \$1.5 trillion target with tax revenue. The 2001 and 2003 tax legislation is not an option, but everything else is on the table.

This means that most Democratic incumbents are well-positioned to win re-election.

It's worth pointing out that this doesn't mean all Republicans and all Democrats are happy about the deal. The hard-core conservatives are upset that the deal is mostly smoke and mirrors on the spending side and that there may be a tax-increase

continued on page 4

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Debt Deal: Politicians Win, Middle Class Loses

by
Daniel Mitchell
(continued from page 3)

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trap on the revenue side.

The hard-core liberals, by contrast, are angry that there are any spending cuts, even ones based on Washington math. Moreover, they want higher tax rates on upper-income taxpayers today, not a supercommittee that may or may not follow through on soak-the-rich policies in the future.

One group of people, however, unambiguously got the short end of the stick in this budget deal. Ordinary Americans are caught in the middle. They're not poor enough to benefit from the federal government's plethora of income-redistribution programs. But they're not rich enough to have the clever lobbyists and insider connections needed to benefit from the high-dollar handouts like ethanol subsidies and bank bailouts.

Instead, middle-class Americans play by the rules, pay ever-higher taxes, and struggle to make ends meet while the establishment of both parties engages in posturing as America slowly drifts toward a Greek-style fiscal meltdown.

Daniel J. Mitchell is a Senior Fellow at the Cato Institute.

LIMITS

Question of the Quarter:

Do you think a Balanced Budget Amendment would help Congress to rein in spending?

Send your thoughts on this issue to us at
Public.Interest.Institute@LimitedGovernment.org.

We may publish some of your ideas in the December 2011 issue of *LIMITS*.

In the June issue of *LIMITS* we asked if taxes should be raised in order to pay off the national debt.

Public Interest Institute member and supporter Phil Morris, in response to our question, stated that "we are in a very fragile recovery at this time and it is not a good time to be raising taxes. Some tax loopholes should be addressed in a near future time and a complete overhaul of the income tax system addressed. Personally, I favor the flat tax program outlined by Steve Forbes."

Thank you, Phil, for your good thoughts and thank you for your continued support of Public Interest Institute.

A Return to Traditional Conservatism

by John Hendrickson

The United States is at both an economic and cultural crossroads. The economy is still suffering from the “Great Recession” with slow economic growth and 9.1 percent unemployment. The credit rating of the nation has recently been lowered because of the failure of policymakers to appropriately address the spending problem. Our national debt is over \$14 trillion and the federal government has been running trillion-dollar deficits, while entitlement programs threaten to consume the entire budget unless reformed. The traditional values and Christian heritage of the nation is also under attack by secular worldviews. Conservatives are fighting a war on a thousand fronts, from restoring the economy and constitutional government to preserving our heritage from a growing secular and relativistic culture. Conservatives who are looking for both a policy and philosophical blueprint to restore the Republic would be well served to read *Bringing America Home: How America Lost Her Way and How We Can Find Our Way Back*, by Tom Pauken, and *The Next Conservatism* by Paul M. Weyrich and William S. Lind — both of which provide a call for a return to traditional conservatism that is based upon consti-

tutional limited government and the defense of our American and Christian heritage.

Tom Pauken, who currently serves as Chairman of the Texas Workforce Commission, is a veteran of the conservative movement. Pauken was a supporter of Senator Barry M. Goldwater, who ran for President on the Republican ticket in 1964, and he served in both President Richard M. Nixon’s and President Ronald Reagan’s administrations. As a conservative, he was influenced by Goldwater’s book *The Conscience of a Conservative* as well as William F. Buckley’s *Up From Liberalism*, and James Burnham’s *Suicide of the West*, among other great works of the American conservative movement.¹ Pauken has been very concerned about the direction of both the conservative movement and the Republican Party. “But what passes for conservatism in the post-Reagan era of Republican politics is barely recognizable to many of us who were grassroots activists in the early days of the conservative movement — especially after eight years of a Republican administration headed by George W. Bush, who claimed to be a conservative.”²

Although President Bush did make some good conservative decisions such as judicial appointments, tax cuts, and de-

fending crucial social issues, his administration followed the path of New Deal-style government expansion with such programs as Medicare Part D and No Child Left Behind, which in the process led to our spending problems today. In addition, President Bush followed the Neoconservative approach to foreign policy with his interventionism and nation-building efforts, which is a foreign policy more in line with progressives rather than conservatives.

Pauken is arguing for a return to traditional conservatism that is rooted in the limited government philosophy of Goldwater and Reagan, which also protects our traditional values and Christian heritage. “The hardest part in formulating an overall strategy to get our country back on the right track is figuring out how to restore our traditional beliefs... Our country was not founded on the egalitarian, antireligious principles of the French Revolution,” wrote Pauken.³ “Christian values are at the center of our national character; and the attack on them has taken a heavy toll on the traditional family,” argued Pauken.⁴ This is clearly seen in the debates over economic policy, the definition of marriage, and abortion, among other cultural issues. Pauken also

continued on page 7

Economic Freedom and the Constitution

by Clint Bolick

Imagine a country in which the right to a welfare check is vigorously protected — but where the government can destroy legitimate businesses and professions with impunity.

Is it China? Russia? Cuba? A socialist utopia dreamed up by the likes of George Orwell?

No: It's the United States, supposedly the beacon of enterprise for the entire world. Governments at every level — not to mention unelected regulatory agencies — regularly deny individuals the basic freedom of enterprise that is every American's birthright. Often they do so not to protect public health or safety, but to protect established businesses from competition.

Our Constitution was meant to protect economic liberty, the right to earn a living free from arbitrary or excessive governmental restraint. Following the Civil War, southern states attempted to maintain a servile labor supply by negating the economic liberty of newly emancipated blacks. Congress responded by enacting the 14th Amendment, whose guarantee of citizens' "privileges or immunities" was designed to protect economic liberty.

Yet when aggrieved entrepreneurs turn to the courts for protection, they almost always lose. Unlike when other constitutional rights such as freedom of speech are involved, courts apply to economic regulations

the so-called "rational basis" test, a misnomer because in most instances it does not require the government to prove a basis for its actions, much less a rational one. Some courts even have recognized economic protectionism as a legitimate government objective.

How did this happen? The emergence of the regulatory state is well-chronicled, but the acquiescence to it by the judiciary (including many conservative judges) is decidedly less so.

In the *Slaughter-House Cases*, decided only a few years after the passage of the 14th Amendment, the U.S. Supreme Court, by a 5–4 vote, obliterated the privileges-or-immunities clause by upholding a bribery-procured slaughterhouse monopoly. A half-century later, the New Deal Supreme Court completed the deed by relegating economic liberty to the basement of the constitutional pantheon. Today, while the 14th Amendment's equal-protection and due-process guarantees remain vibrant, the privileges-or-immunities guarantee is a dead letter.

One victim is Cindy Vong, who fled Communist oppression in Vietnam as a young girl to make a better life in America. The owner of a licensed nail salon, Vong discovered an exciting new enterprise popular in Asia called Spa Fish, in which tiny, toothless carp nibble dead skin from patrons' feet. The practice

poses no health or safety risks and reportedly provides a relaxing experience.

Vong invested thousands of dollars in the new venture and attracted customers from several states. But the Arizona Board of Cosmetology, ever fearful of new forms of competition, ordered Vong to shut down her business. Vong had to lay off employees and lost her entire investment. The Goldwater Institute filed a lawsuit challenging the board's actions. After the state trial court dismissed the lawsuit, the Court of Appeals overturned that decision, holding that Cindy Vong is entitled to her day in court.

In recent years, some courts have struck down arbitrary barriers to enterprise, such as cosmetology-licensing laws that restricted African hair-braiding and the funeral cartel's monopoly over casket sales. But until the U.S. Supreme Court reconsiders and overturns the *Slaughter-House Cases*, government will continue to run roughshod over the American Dream.

Clint Bolick is Research Fellow with the Hoover Institution and Litigation Director at the Goldwater Institute. This article is based on his new book, Death Grip: Loosening the Law's Stranglehold over Economic Liberty.

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A Return to Traditional Conservatism by John Hendrickson

(continued from page 5)

illustrated the fundamental point when he wrote that “unfortunately, our society has been under an increasingly lethal assault by a coalition of cultural ideologues who have not learned the lessons that history offers about what has happened when men and societies have ‘forgotten God.’”⁵

Bringing America Home also calls for a return to a conservative philosophy of economics, which is a call for tax and regulatory reform as well as returning back to constitutional principles and traditional federalism. As an example, Pauken urges conservatives to take seriously the decline in manufacturing, which has not only been devastating for the economy, but also for the middle class. A crucial part in restoring the economy, including the manufacturing base, is tax reform. “The combination of out-of-control government spending and a fatally flawed tax policy is lethal,” noted Pauken.⁶ He also warns against the high trade deficits and the devaluation of the dollar. *Bringing America*

Home also addresses conservative reforms to foreign policy and other domestic issues such as education, but Pauken’s call for a return to traditional conservatism is a correct solution for the major foreign and domestic problems the nation faces today.

The Next Conservatism echoes many of the points raised by Pauken. Both Paul Weyrich and William S. Lind are also veterans of the conservative movement. Weyrich, who passed away in 2008, put forth *The Next Conservatism* as a blueprint for the conservative movement to follow. It also calls for a restoration of traditional conservatism based upon the philosophy of Russell Kirk. *The Next Conservatism* correctly argues that conservatism is not an ideology, but a philosophy, and while conservative policies are good, conservatives must not see politics as the only solution to our nation’s problems. “A restored republic opens the door to the restoration of our culture. But by the nature of a republic’s limited government, it cannot itself restore the culture... The only power that can restore traditional Western Judeo-culture is the power of example, which is also the only safe form of power,” wrote Weyrich and Lind.⁷

The Next Conservatism calls for the defense of Christian heritage, including the protection of life and traditional marriage. It also argues for an immigration policy that controls the borders, tax and regulatory reform, spending restraint, and a balanced budget. *The Next*

Conservatism defends a strong dollar monetary policy and like Pauken calls for the restoration of the manufacturing sector of the economy. Both Weyrich and Lind also join Pauken in urging the restoration of a traditional foreign policy approach rather than the Neoconservative persuasion.

“Redeeming the time means restoration, of our republic, our culture, of the old ways of living and ultimately, of our faith,” noted Weyrich and Lind.⁸ The conservative philosophy outlined in *Bringing America Home* and *The Next Conservatism* is a must read for all concerned citizens who are looking for solutions to restore our economy and troubled culture. It is only by returning to the principles of conservatism that we will restore the Republic, strengthen the economy, and restore our Christian heritage.

Endnotes:

¹Tom Pauken, *Bringing America Home: How America Lost Her Way and How We Can Find Our Way Back*, Chronicles Press, Rockford, Illinois, 2010, p. 13.

²*Ibid.*, pp. 15-16.

³*Ibid.*, pp. 130-131.

⁴*Ibid.*, p. 199.

⁵*Ibid.*, p. 200.

⁶*Ibid.*, p. 153.

⁷Paul M. Weyrich and William S. Lind, *The Next Conservatism*, St. Augustine’s Press, South Bend, Indiana, 2009, p. 9.

⁸*Ibid.*, p. 10.

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**Will Obama Ever Learn
Economics From Reagan?**

**by Edwin Meese, III, and
Michael Needham**

(continued from page 2)

to do the right thing, not by confiscating their wealth and subjecting them to myriad rules and regulations that stifle their creativity and sap their innovation.

"He recognized that each of us has the power — as individuals and as a nation — to shape our own destiny," President Obama wrote this past January. That destiny, however, can be realized only in an atmosphere of freedom. Will the current President learn from the lessons of 1982?

Former U.S. Attorney General Edwin Meese, III holds the Ronald Reagan Chair in Public Policy at The Heritage Foundation. Michael Needham is Chief Executive Officer of Heritage Action for America.

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