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*How to "Return to Normalcy" in America: Follow the Example of President Warren G. Harding**

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by

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How to "Return to Normalcy" In America: Follow the Example of President Warren G. Harding

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Executive Summary

The United States in the aftermath of World War I entered into an economic depression that devastated the economy and brought double-digit unemployment. The nation in 1920, tired of war and progressive politics, voted in mass for a return of conservative politics represented by Ohio's Republican Senator and presidential candidate Warren G. Harding. Harding in the campaign pledged a "return to normalcy," which was a call for constitutional limited government. During the campaign Harding advocated and urged fiscal responsibility through reducing federal spending, substantial tax reform, and reducing regulation on business.

President Harding's main focus in office was to restore the economy and constitutional government. He relied on the expert advice of Secretary of the Treasury Andrew Mellon, who created an economic policy that would eventually lead to recovery and the Coolidge prosperity of the 1920s.

President Harding and Secretary Mellon faced an economy that was in depression by 1921 with 11.7 percent unemployment. Harding and Mellon called for an economic policy that consisted of reducing government spending, reforming and cutting taxes, and reducing the regulatory burden. This was the "Normalcy" program and the idea was to restore the economy and encourage entrepreneurial activity.

Both President Harding and Mellon believed that in addition to cutting spending and tax reform the budget had to be balanced and the national debt paid off. This meant not only fiscal restraint, but also declining new federal expenditures which would only add pressure to both the budget and the national debt. Harding did not call for a new era of reform as Theodore Roosevelt and Woodrow Wilson had previously done with the Square Deal and New Freedom, but rather he drew upon the philosophy of the American Founding Fathers. Mellon, for example, not only understood economics, but he also followed the political and economic ideas of Alexander Hamilton.

By 1923 the Harding-Mellon economic plan had ushered in a roaring economy that was filled with expansion and a growth in entrepreneurship. President Calvin Coolidge and Mellon, after the death of Harding, continued to pursue the agenda of fiscal restraint and tax reform, which resulted in budget surpluses, reducing the national debt, and restoring employment.

The depression of 1920-1921 has been forgotten because it is overshadowed by the Great Depression of the 1930s, but the policy lessons provided by President Harding and Secretary Mellon demonstrate that constitutional limited government policies that promote economic liberty are the best way to promote a sound government and economy.

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How to "Return to Normalcy" in America:

"President Harding's approach to solving the economic recession he faced focused on allowing the private sector to work. Harding believed that tax rates should be cut, government spending should be reduced, and private property and free enterprise should be encouraged and not shackled by new regulations ."

Introduction

The current economic recession has resurrected a much needed national debate over the role of the federal government during times of economic trouble. Instructively, this debate could center on the question of whether or not the nation should follow the approach of Warren G. Harding or Franklin D. Roosevelt. This debate is centrally a debate over economic and political policies and philosophies, and how to interpret the role of the federal government under the Constitution. Both Presidents Harding and Roosevelt confronted an economic crisis during their administration and each responded with different policies. President Harding responded with Normalcy; President Roosevelt with the New Deal.

President Barack Obama and many Democrats are calling for a second New Deal and arguing that only the federal government can reverse the economic recession and unemployment. The President's policies that have received a blessing from the Democrat-controlled Congress include the $787 billion stimulus bill, a renewed push for regulation and more regulatory agencies, using the federal government to intervene in private business such as with the auto industry, and using government spending to revive the economy.

The administration is also advocating long-term reforms, just as Roosevelt's New Deal ushered in various reforms through the welfare state. President Obama's most aggressive reforms are centering on environmental policy and universal health care. The administration is hoping to fix the "injustices" of the 21st century economy and institute various "rights" for the American people, such as the "right to adequate health care." The President proposes giving individual rights and responsibilities to the federal government in exchange for economic security, which is a progressive idea dating back to the New Deal.

President Obama has clearly rejected the approach of President Harding, which is of no surprise since he believes in a progressive ideology. President Harding's approach to solving the economic recession he faced focused on allowing the private sector to work. Harding believed that tax rates should be cut, government spending should be reduced, and private property and free enterprise should be encouraged and not shackled by new regulations. This approach focused on a limited government and adherence to the Constitution.

This policy direction was utilized by both President Harding and President Calvin Coolidge, and future administrations under Presidents John F. Kennedy and Ronald Reagan understood the ideas behind cutting taxes to stimulate the economy in an economic downturn. President Warren Harding is currently receiving more consideration from academic scholars for his political philosophy. Too often Harding is seen as a lightweight, poker-playing politician with questionable morals, whose administration did nothing except get involved in numerous scandals. On closer examination, the Harding administration had a political philosophy that was rooted in the Constitution: limited government and economic liberty — virtues that the Supreme Court defended in the 1920s and early 1930s and which ran counter to the progressivism of Theodore Roosevelt, Woodrow Wilson, and later Franklin D. Roosevelt.

The Great War and the American Economy: The Causes of the Depression of 1920

The administration of Theodore Roosevelt marked the beginning of the Progressive movement in our national government. The Progressive movement was a broad social, economic, and political reform movement that adopted some of the reform ideas from the agrarian populist movement of the late 19th century. Progressives belonged to both political parties and believed that the society, economy, and politics of the 20th century had changed so significantly since the days of the American founding that the traditional ideas of limited government and economic liberty were no longer applicable.

Progressives believed that with the emergence of the United States as an industrial leader in the Gilded Age, the federal government needed to provide an oversight role to regulate the economy. Progressives campaigned on a platform of trust busting, closely regulating various industries and commerce, urban reform, direct election of Senators, an income tax, and a more activist government to regulate not only the economy, but also politics and social reform.

During the administrations of Theodore Roosevelt and Woodrow Wilson, the administrative state emerged. The main objective of this administrative state was to regulate economic activity, reform society, and allow professional administrators to carry out reforms, which they asserted was more efficient than allowing reform to be handled through the political process. Some examples include the Sherman Anti-Trust Act, the Clayton Anti-Trust Act, the Interstate Commerce Commission, and the Federal Reserve System, among others. Professor Robert Higgs has noted that "notwithstanding the accretions of governmental authority during the Progressive Era, the American economy remained, as late as 1916, predominantly a market system."[1]

Although the Progressive policies of Roosevelt and Wilson would have lasting implications on government, it was the American entrance into the Great War (World War I) that changed the American

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economy. "The next two years, however, witnessed an enormous and wholly unprecedented intervention of the federal government in the nation's economic affairs," wrote Higgs.[2] President Woodrow Wilson in the spring of 1917 asked Congress to join Britain and France in war against Germany and the Ottoman Empire. The Great War would have lasting consequences not only on the economy and foreign policy of the United States, but also the foreign policies and economies of Europe and other nations.

During the mobilization for war, the Wilson administration centralized the American economy. As described by Professor Higgs:

> By the time of the Armistice the government had taken over the ocean shipping, railroad, telephone, and telegraph industries; commandeered hundreds of manufacturing plants; entered into massive economic enterprises on its own account in such varied departments as shipbuilding, wheat trading, and building construction; undertaken to lend huge sums to businesses directly or indirectly and to regulate the private issuance of securities; established official priorities for the use of transportation facilities, food, fuel, and many raw materials; fixed the prices of dozens of important commodities; intervened in hundreds of labor disputes; and conscripted millions of men for service in the armed forces. It had, in short, extensively distorted or wholly displaced markets, creating what some contemporaries called war socialism.[3]

In reflecting on the centralization of the economy, J. M. Clark noted that "nothing has remained untouched by the war."[4]

President Wilson and Congress also needed to fund the wartime economy, by increasing taxation and government spending. The 16th Amendment to the Constitution, the income tax amendment, was still a relatively new Progressive victory, and income taxes during the war increased dramatically. In addition, the Administration increased the corporate tax as well. The tax increase "became two percent on incomes under $20,000 and rose to fifteen percent on incomes of $2 million or more."[5] Economic historian Burton Folsom noted that Wilson "used the income tax to raise much of the money to wage war: rates started at four percent and soared to seventy-seven percent on top incomes. Corporate taxes rose to eighteen percent."[6] "The war produced a permanent shift in the sources of federal revenue, away from consumption taxes (including the tariff) and toward income, profit, and estate taxes disproportionally laid on those with high income and wealth," noted Higgs.[7]

In addition to the high rates of taxation, the federal government began to spend more revenues to fuel the war effort. As Higgs wrote:

> Before the war, federal revenues had never exceeded $762 million in a fiscal year; during the 1920s they were never less than $3,640 million. Before the war, federal expenditures had never exceeded $747 million in a fiscal year; during the 1920s they were never less than $2,800 million.[8]

The centralization of the economy resulted in not only an increased level of regulation, price control, and taxation, but higher levels of government spending and debt. "In the wake of the military victory, the national debt had skyrocketed from $1.5 billion in 1916 to $24 billion in 1919."[9]

The efforts of the United States helped bring a victory in the Great War for the Allied powers, but the war had implications for both domestic and foreign policies. President Wilson turned to promoting the League of Nations in an aggressive manner in order to convince the Senate to ratify the Treaty of Versailles and join the League of Nations. Although the major policy and political debate in the aftermath of the Great War was over the League of Nations, the nation's economy started to move into a downturn. November 11, 1918, Armistice Day, began the process of demobilization of not only the armed forces, but also of the home-front economy that had been under federal government control.

President Wilson's main concern was not demobilization and the domestic economy, but rather getting his League of Nations approved by the Senate. In fact, Wilson argued that both the American people and the economy would adjust to peacetime.[10] The President spent his strength campaigning for Senate ratification and public approval for the League and his grueling efforts resulted in his incapacitating stroke that severely limited his ability to govern.

The national economy by the spring of 1919 began to falter and slide into a recession. Soldiers who fought in the Great War would soon return home and return to their previous interrupted lives and jobs along with the civilian wartime employees who would have to readjust to a peacetime economy. "By the end of June 1919 a total of 2,600,000 men and 128,436 officers had been mustered out," of the armed services, and the Administration also had to contend with the surplus in military goods in both the United States and in

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"The centralization of the economy resulted in not only an increased level of regulation, price control, and taxation, but higher levels of government debt."

How to "Return to Normalcy" in America:

"The skyrocketing unemployment, and inflation, combined with faltering conditions for both industry and agriculture dropped the cost of living from 105.5 percent above the 1914 level in July to 93.1 percent in March 1921— the sharpest slide for any comparable period in American history ."

Europe.[11] By February of 1919, unemployment reached three million and inflation sent prices skyrocketing, but the economy still showed signs of growing.[12]

The skyrocketing unemployment, and inflation, combined with faltering conditions for both industry and agriculture dropped the cost of living "from 105.5 percent above the 1914 level in July 1920 to 93.1 percent in March 1921 — the sharpest slide for any comparable period in American history."[13] The decline in prices hit the agricultural sector of the economy especially hard. "Agricultural prices, which had risen since 1914, fell by more than half between July and December 1920 and by May 1921 were about a third what they had been eleven months earlier."[14] Milton Friedman and Anna Schwartz wrote in their definitive *A Monetary History of the United States, 1867-1960*, that the decline in prices from August 1920 to the winter of 1921 was "by all odds the sharpest price decline in the period covered by our money series, either before or since that date and perhaps also in the whole history of the United States."[15]

The Federal Reserve, which was a relatively new administrative regulator of the nation's monetary system, had inflated the money supply during the war.[16] "Once the Fed finally began to raise the discount rate — the rate at which it lends to banks — the economy slowed as it started to readjust to reality."[17] Friedman and Schwartz wrote that "the business cycle from 1919 to 1921 was the first real trial of the new system of monetary control introduced by the Federal Reserve Act."[18]

The Depression of 1920 was now in full force upon the national economy. The depression hit all aspects of the American economy:

> The dramatic collapse brought much dissatisfaction to rural America, but Labor and Industry also suffered. Unemployment in non-farm jobs grew from 2.3 percent in 1919 to 4.0 percent in 1920, and up to 11.9 percent in 1921, with more than five million unable to find work. For those persons who remained employed, wages declined 20 percent. And businesses closed as capital dried up, with 100,000 bankruptcies in 1921.[19]

"By the middle of 1920 the downturn in production had become severe, falling by 21 percent over the following twelve months."[20] Economic historian Jim Powell noted that "the estimated Gross National Product plunged 24 percent from $91.5 billion in 1920 to $69.6 billion in 1921."[21] Robert K. Murray, a historian of the 1920s and biographer of Warren G. Harding, wrote that "it was estimated that in January 1921 there were 3,473,446 fewer persons in industrial employment than in January 1920. This represented an unemployment rate of almost twenty percent."[22]

Noted economists Richard Vedder and Lowell Gallaway in, *Out of Work: Unemployment and Government in Twentieth-Century America*, wrote that "by far the most important business cycle development of the first three decades of the twentieth century was the sharp economic downturn of 1920-1921.[23] Vedder and Gallaway argued that the "annual rate of unemployment reached 11.7 percent, some months within that year witnessed even higher unemployment — possibly as much as 15 percent."[24] The nation was faced with double-digit unemployment of at least 11.7 percent and even as high as twenty percent during the depression.

Economic historian Thomas Woods has labeled the Depression of 1920-1921 as "the forgotten depression," since it is overshadowed by the Great Depression and was short-lived.[25] "The result is that although this contraction was relatively brief — the National Bureau dates the trough in July 1921 — it ranks as one of the severest on record," noted Freidman and Schwartz.[26] Why was this severe depression in 1920-1921 so short-lived? The answer can be found by closely studying the economic and political policies of the Harding administration.

Historians and economists generally dismiss or briefly examine the Depression of 1920 because of its short impact and it is usually seen as a market correction of the business cycle after the war. As Thomas Woods wrote:

> Not surprisingly, many modern economists who have studied the Depression of 1920-1921 have been unable to explain how the recovery could have been so swift and sweeping even though the federal government and the Federal Reserve refrained from employing any of the macroeconomic tools — public works spending, government deficits, inflationary monetary policy — the conventional wisdom recommends as the solutions to economic slowdowns.[27]

The Japanese, as Woods states, went through an economic downturn as well in the 1920s and as a solution "introduced the fundamentals of a planned economy," which resulted in "chronic industrial stagnation" and a severe banking crisis.[28] The United States with the Great Depression in the late 1920s and into the 1930s followed a similar economic direction with the New Deal, which did not resolve the economic crisis until mobilization for the Second World War cured the unemployment problem. A thorough understanding

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"Why was this severe depression in 1920-1921 so short-lived? The answer can be found by closely studying the economic and political policies of the Harding administration ."

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of history is vital for any policy maker, and understanding the political philosophy of the Harding Administration in its approach to the Depression of 1920 offers a sound example and solution for solving today's economic recession.

The Presidential Election of 1920 and the Economic Policy of Warren G. Harding

The Progressive era in American politics came to a pause with the election of Warren G. Harding and the Republican ascendancy of the 1920s. The nation by 1920 had tired of the politics of Wilson and yearned to return to the pre-war days. Although the League of Nations had been the dominant issue in the election, voters desired a more conservative direction in politics. "The return to isolationism from world affairs, which the repudiation of the League inaugurated, was accompanied by a return to a laissez-faire approach to governing — that is, a partial restoration of the wall that had separated government from the economy before the advent of progressivism," noted presidential scholars Sidney M. Milkis and Michael Nelson.[29]

In a May 14, 1920, address Harding captured the national preference to move in a more conservative direction when he stated:

> America's present need is not heroics, but healing; not nostrums, but normalcy; not revolution, but restoration; not agitation, but adjustment; not surgery, but serenity; not dramatic, but the dispassionate; not experiment, but equipoise; not submergence in internationality, but sustainment in triumphant nationality.[30]

Harding's speech set the tone of his campaign and his administration and it became known as the "return to normalcy" speech. Harding was criticized for using the word "normalcy," but Harding understood that the nation was at a crossroads both in terms of foreign policy and the economy.

"By 'normalcy' I don't mean the old order, but a regular steady order of things. I mean normal procedure, the natural way, without excess," noted Harding.[31] For Harding "what currently mattered was the existence of unemployment, high taxes, business depression, farmer unrest, waste in government operations, and an unsettled peace."[32] Harding campaigned on, and the goal of his administration was, a "desire to reduce government expenditures and inject business methods into government operations," which later would receive support from Congress.[33] In his acceptance speech for the Republican presidential nomination, Harding spoke of restoring constitutional government as well as sound economic policies.[34]

Harding understood that ideas and ideologies had consequences, and he stated that "it would be the blindness of folly to ignore the activities in our own country which are aimed to destroy our economic system…"[35] He also understood that the economic policies of the Wilson Administration and those of the Federal Reserve had caused serious trouble for the nation's economy. As Harding stated:

> Gross expansion of currency and credit have depreciated the dollar just as expansion and inflation have discredited the coins of the world. We inflated in haste, we must deflate in deliberation. We debased the dollar in reckless finance, we must restore in honesty. Deflation on the one hand and restoration of the 100-cent dollar on the other ought to have begun on the day after the Armistice, but plans were lacking and courage failed. The unpreparedness for peace was little less costly than unpreparedness for war.[36]

Harding in his campaign did not promise to "remake" the United States or offer the nation a grand vision of reform as Roosevelt or Wilson had previously done through the Square Deal and New Nationalism (Roosevelt) and New Freedom (Wilson). In fact Harding believed that the presidency had grown too strong and a restoration of a constitutional presidency was in order. In confronting Wilson's depression, Harding would look to the Constitution and the market rather than government expansion and power. Harding believed that a conservative policy direction was needed:

> We will attempt intelligent and courageous deflation and strike at government borrowing which enlarges the evil, and we will attack the high cost of government with every energy and facility which attend Republican capacity. We promise that relief which will attend the halting of waste and extravagance, and the renewal of the practice of public economy, not alone because it will relieve tax burdens, but because it will be an example to stimulate thrift and economy in private life.[37]

Harding called for both government and the people to undertake "thrift and economy, for denial and sacrifice, if need be, for a nation-wide drive against extravagance and luxury, to a recommittal [sic] to simplicity of living, to that prudent and normal plan of life which is the health of the Republic."[38]

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"Harding understood that a continuation of the Wilsonian progressive policies would be ruinous to prosperity."

Harding understood that a continuation of the Wilsonian progressive policies would be ruinous to prosperity. "There hasn't been a recovery from the waste and abnormalities of war since the story of mankind was first written, except through work and saving, through industry and denial, while needless spending and heedless extravagance have marked every decay in the history of nations," noted Harding.[39] In regard to policy, Harding "always decried high taxes, government waste, and excessive governmental interference in the private sector of the economy," and he believed in not only significant tax reform but also reducing government expenditures and that "government ought to strike the shackles from industry…We need vastly more freedom than we do regulation."[40] Some of the principles that Harding campaigned on include:

•"Reforming the budget process and bringing business methods to government;
•Federal departments should be made more business-like and send back to productive effort thousands of Federal employees, who are either duplicating work or not essential at all;
•I believe the tax burdens imposed for the war emergency must be revised to the needs of peace, and in the interest of equity in distribution of the burden."[41]

The voters responded to Harding's "normalcy" program with a landslide electoral victory of 404 electoral votes. In his Inaugural Address on March 4, 1921, President Harding stated that "we can reduce the abnormal expenditures, and we will. We can strike at war taxation, and we must…Our most dangerous tendency is to expect too much of government and at the same time do for it too little."[42] Harding stated that his administration would fight "for administrative efficiency, for lightened tax burdens, for sound commercial practices, for adequate credit facilities, for sympathetic concern for agricultural problems, for the omission of unnecessary interference of government with business, for an end to government's experiment in business, and for more efficient business in government administration."[43]

Harding, Mellon, and the Depression

"Any wild experiment will only add to the confusion. Our best assurance lies in efficient administration of our proven system," noted President Harding.[44] Harding believed that the President should not govern by himself and that a strong cabinet was needed. The Harding cabinet reflected his belief in "cabinet government," and he appointed, with the blessing of the Senate, an all-star cabinet. Some of the notable officials included Charles Evans Hughes (Department of State), Herbert C. Hoover (Department of Commerce), and most notably Andrew Mellon who was appointed as Secretary of the Treasury. Mellon came into the administration with a deep background and knowledge in business and economic affairs. The wealthy Pittsburgh entrepreneur and banker was considered a "robber baron" by progressive standards. Mellon would become the symbol of Republican economic policy during the 1920s and he would serve as Secretary of the Treasury under three administrations — those of Harding, Calvin Coolidge, and Herbert Hoover.[45] Mellon not only had a thorough understanding of business and economics, but he understood and studied the political economy of Alexander Hamilton, who served as the nation's first Secretary of the Treasury and placed the young republic on a sound financial footing. Soon, Mellon would be referred to as the greatest Treasury Secretary since Hamilton.

Mellon entered public service at a time when the nation desperately needed sound economic policy, and as Treasury Secretary he "confronted three major crises: a spiraling national debt, near confiscatory tax rates, and the repayment of large loans owed the United States by most European nations."[46] The administration also had to deal with 11 percent unemployment. Both Harding and Mellon, and later Coolidge, agreed on economic policy. They believed the sound route back to recovery was in reducing expenditures, tax reform, paying down the debt, and allowing the private sector to grow by encouraging entrepreneurship and productivity.

On April 12, 1921, President Warren G. Harding spoke to Congress in special session in regard to the economic and political situation the nation faced. *The Nation* magazine, no friend of Harding, outlined the magnitude of his challenge: "President Wilson's legacy to Mr. Harding will be one of debts rather than assets. With the single exception of Lincoln, probably no President in our national history has taken office with as pressing a burden of unsolved questions as will fall to the lot of our next Executive."[47] This placed President Harding in a position similar to that of Presidents Franklin D. Roosevelt, Ronald Reagan, and even Barack Obama.

"I know of no more pressing problem at home than to restrict our national expenditures within the limits of our national income, and at the same time measurably lift the burdens of war taxation from the shoulders of the American people," noted the President to Congress.[48] Harding argued that the most dangerous problems facing government and the economy in 1921 were uncontrolled spending and high taxation. As Harding argued:

> The unrestrained tendency to heedless expenditure and the attending growth of

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public indebtedness, extending from federal authority to that of state and municipality and including the smallest subdivision, constitute the most dangerous phase of government today…We shall hasten the solution and aid effectively in lifting the tax burdens if we strike resolutely at expenditure. It is far more easily said than done. In the fever of war our expenditures were so little questioned, the emergency was so impelling, appropriation was so unimpeded that we little noted the millions and counted the Treasury inexhaustible. It will strengthen our resolution if we ever keep in mind that a continuation of such a course means inevitable disaster.[49]

In December of 1921 President Harding's budget for fiscal year 1922-1923 was about $3.5 million, and by the end of the fiscal year the budget was in surplus.[50] Charles G. Dawes, Director of the Budget Bureau, in referring to Harding's reduced budget stated that "we took our own medicine," meaning the administration held to fiscal prudence.[51] And, as Harding told Congress: "I have said to the people we meant to have less of Government in business as well as more business in Government."[52]

"Not only did Harding recommend a reduced budget to Congress, but he also battled the legislative branch on the issue of bonuses for war veterans."

The Harding Administration stood by its commitment to fiscal responsibility. Not only did Harding recommend a reduced budget to Congress, but he also battled the legislative branch on the issue of bonuses for war veterans. With the nation in the midst of a depression, Harding did not believe it prudent for Congress to pass veterans bonus legislation even though he honored their sacrifice. In a speech to the Senate, Harding stated: "If this measure could be made effective at the present time without disaster to the Nation's finances and without hindrance to imperative readjustment of our taxes it would present an entirely different question than which is before you."[53]

Although Harding did not object to providing for the veterans who served in the Great War, he believed it would "hinder every effort and greatly imperil the financial stability of our country."[54] Harding even reminded Congress about the state of "difficulties we daily are called upon to meet, and the added peril this measure would bring."[55] In addition, the President told Congress that substantial economic policy priorities had to be met, such as reducing government expenditures, tax reform, and paying down the debt. As Harding stated:

> After a survey of more than four months, contemplating conditions which would stagger all of us were it not for our

> abiding faith in America, I am fully persuaded that all three things are essential to the very beginning of the restored order of things. These are the revision, including reduction, of our internal taxation, the refunding of our war debt, and the adjustment of foreign loans. It is vitally necessary to settle these problems before adding to our Treasury any such burden as is contemplated in the pending bill. It is unthinkable to expect a business revival and the resumption of the normal ways of peace while maintaining the excessive taxes of war. It is quite as unthinkable to reduce our tax burdens while committing our Treasury to an additional obligation which ranges from three to five billions of dollars.[56]

Harding's battle with Congress on the bonus bill, which he vetoed, was an example of political prudence in times of economic crisis. During the Great Depression, President Franklin D. Roosevelt failed to uphold the Democrat platform of fiscal responsibility and in today's crisis President Barack Obama and the majority of the Democrat Congress have carried on the tradition — by both political parties — of deficit spending, whether it is the $787 stimulus bill or the "cash for clunkers" used-vehicle program. Harding was a faithful budget hawk who understood that the financial creditability of the federal government was necessary for a sound economy.

Andrew Mellon followed two corollaries of Alexander Hamilton. "Alexander Hamilton, whose genius was responsible for the establishment of our financial system, early committed this Government to a policy of debt payment and keeping expenditures within income," noted Mellon.[57] Both Harding and Mellon argued that both expenditures and the debt needed to be reduced and the latter paid off as quickly as possible. As Mellon argued:

> In view of the great carrying charge of the debt, it would seem imperative that the debt be reduced as rapidly as possible and that no further obligations be incurred in the form of unusual or extraordinary expenditures. In so far as this Government is concerned, its policy has been to keep its own house in order, to maintain the gold standard unimpaired, to balance its budget and to carry out a reasonable program for the orderly funding and gradual liquidation of the war debt.[58]

Follow the Example of President Warren G. Harding

"During the Great Depression, President Franklin D. Roosevelt failed to uphold the Democrat platform of fiscal responsibility and in today's crisis President Barack Obama and the majority of the Democrat Congress have carried on the tradition ."

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"Mellon believed high taxation stifled entrepreneurship, buisness activity, and was bad policy."

In addition, Mellon argued that the "policy of keeping the Government's expenditures within its income is the further policy of keeping the revenues not too greatly in excess of expenditures," both of which are essential for a sound financial and economic system.[59]

During the fiscal years 1922 and 1923, Mellon noted that "each closed with a surplus of about three hundred and ten million dollars above all expenditures, chargeable receipts, including the Sinking Fund and other similar retirements of the debt."[60] And just as Harding argued with Congress over the bonus bill, Mellon stated that "in the case of the Government, therefore, every new expenditure must be paid out of new borrowings."[61] Mellon attacked both the spending and the debt problems by "renegotiating almost one-third of the debt at lower interest rates," and he helped Harding and later Coolidge "chop federal spending from $6.5 billion in 1921 to $3.5 billion in 1926."[62] Jim Powell summarized the Harding spending record: "Federal spending was cut from $6.3 billion in 1920 to $5 billion in 1921 and $3.2 billion in 1922. Federal taxes fell from $6.6 billion in 1920 to $5.5 billion in 1921 and $4 billion in 1922."[63] In addition, the "federal government paid off debt, which had been $24.2 billion in 1920 and it continued to decline until 1930."[64]

President Harding pursued fiscal responsibility by reducing expenditures, streamlining the federal budget process, and seeking tax reform. Yet, the nation still suffered from high rates of taxation with the top income-tax bracket being over 70 percent toward the end of the Wilson administration. Mellon believed high taxation stifled entrepreneurship, business activity, and was bad policy. In *Taxation: The People's Business*, Mellon argued that "a sound tax policy must take into consideration three factors."[65] Mellon's principles of taxation included:

•"It must produce sufficient revenue for the Government;

•It must lessen, so far as possible, the burden of taxation on those least able to bear it;

•And it must also remove those influences which might retard the continued steady development of business and industry on which, in the last analysis, so much of our prosperity depends."[66]

Mellon also warned that tax policy should not be treated as a partisan issue or be fought on the front lines of class warfare, and he argued that tax policy should not be viewed as "a means of rewarding one class of taxpayers or punishing another."[67]

Mellon also argued that high rates of taxation do not necessarily translate into more revenue for the government. As Mellon wrote: "It seems difficult for some to understand that high rates of taxation do not necessarily mean large revenue to the Government, and that more revenue may often be obtained by lower rates."[68] Mellon, just as with Harding, believed that "the Government is just a business, and can and should be run on business principles."[69] The rate of taxation whether it was income, corporate, or any form of taxation would either encourage economic growth or stifle the economy. Mellon argued that lower taxes would cause an increase in economic growth, business activity, and entrepreneurship:

> On the other hand, a decrease of taxes causes an inspiration of trade and commerce which increases the prosperity of the country so that the revenues of the Government, even on a lower basis of tax, are increased. Taxation can be reduced to a point apparently in excess of the estimated surplus, because by the cumulative effect of such reduction, expenses remaining the same, a greater revenue is obtained. High taxation, even if levied upon an economic basis, affects the prosperity of the country, because in its ultimate analysis the burden of all taxes rests only in part upon the individual or property taxed. It is largely borne by the ultimate consumer. High taxation means a high price level and high cost of living. A reduction in taxes therefore, results not only in an immediate saving to the individual or property directly affected, but an ultimate saving to all people in the country.[70]

And as Mellon argued: "the history of taxation shows that taxes which are inherently excessive are not paid. The high rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business and invest it in tax-exempt securities or to find other lawful methods of avoiding the realization of taxable income."[71] The result, stated Mellon, is that "sources of taxation are drying up; wealth is failing to carry its share of the tax burden; and capital is being diverted into channels which yield neither revenue to the Government nor profit to the people."[72]

The Mellon tax-reform plan would become substantial to the Harding economic program and it brought large amounts of political debate.[73] Mellon's tax-reform proposal called for:
•Reducing the top income-tax rate to 25 percent;
•Reducing the lower income-tax brackets;
•Reducing the estate tax;
•Efficiency in government (Mellon wanted expenditures below $4 billion).[74]

President Harding, Secretary Mellon, and their supporters in Congress had a difficult time

Follow the Example of President Warren G. Harding

"The high rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business and invest it in tax exempt securities or to find other lawful methods of avoiding the realization of taxable income."

How to "Return to Normalcy" in America:

enacting a satisfactory tax reform (the Mellon plan) through Congress because of progressive opposition. Folsom noted that "in the tax bills of 1921, 1922, and 1924, Mellon and his supporters reduced the rates on large personal incomes to 46 percent," while corporate taxes were increased.[75]

Both President Coolidge and Mellon continued to push for additional tax reform even after the death of President Harding. They agreed to continue pursuit of reducing taxation. Economist Veronique de Rugy noted that:

> After five years of very high tax rates, rates were cut sharply under the Revenue Acts of 1921, 1924, and 1926. The combined top marginal normal tax and surtax rate fell from 73 percent to 58 percent in 1922, and then to 50 percent in 1923 (income over $200,000). In 1924, the top tax rate fell to 46 percent (income over $500,000). The top rate was just 25 percent (income over $100,000) from 1925 to 1928, and then fell to 24 percent in 1929.[76]

The tax rate on lower incomes was also reduced and the Mellon tax reforms ushered in a period of economic growth. "With Harding's tax cuts, spending cuts and relatively non-interventionist economic policy, the Gross National Product rebounded to $74.1 billion in 1922. The number of unemployed fell to 2.8 million — a reported 6.7 percent of the labor force — in 1922," noted Jim Powell.[77]

"By 1922 and especially by 1923, the economy had rebounded and a new era of prosperity, known as the roaring twenties or Coolidge prosperity had begun."

Harding and Coolidge Prosperity

The 1920s started with a severe economic depression affecting agriculture, industry, and prices, and was accompanied by double-digit unemployment. By 1922 and especially by 1923, the economy had rebounded and a new era of prosperity, known as the roaring twenties or Coolidge prosperity had begun. President Warren G. Harding and his "return to normalcy" economic program utilized constitutional means to restore the economy. Harding and Mellon understood that reducing expenditures, paying off the debt, and tax reform were crucial in rebounding the economy and the fiscal health of the government. The Harding program was rooted in constitutional principles because it stressed limited government and economic liberty. In addition, as mentioned above, Mellon's ideas originated from the policies and political economy of Alexander Hamilton. Mellon advocated Hamiltonian policies that won the approval of both Harding and Coolidge in restoring economic health.

The combination of reducing expenditures, cutting taxes, and paying down the national debt resulted in a quick resolution of the Depression of 1920-1921. The Harding policies initiated a growth in entrepreneurship and business expansion. One indicator of the success of the Harding economic policies, which were continued by Coolidge, is "the misery index, which combines unemployment and inflation."[78] As Burton Folsom noted:

> During Coolidge's six years as President, his misery index was 4.3 percent — the lowest of any President during the twentieth century. Unemployment, which stood at 11.7 percent in 1921 was slashed to 3.3 percent from 1923 to 1929. What's more, Mellon was correct on the effects of the tax-rate cuts — revenue from income taxes steadily increased from $719 million in 1921 to over $1 billion by 1929. Finally, the United States had budget surpluses every year of Coolidge's presidency, which cut about one-fourth of the national debt.[79]

Veronique de Rugy argued that the Mellon tax cuts of the 1920s "allowed the U.S. economy to grow rapidly during the mid- and late-1920s. Between 1922 and 1929, real Gross National Product grew at an annual average rate of 4.7 percent and the unemployment rate fell from 6.7 percent to 3.2 percent."[80] "The Mellon tax cuts restored incentives to work, save, and invest, and discouraged the use of tax shelters," noted Rugy.[81]

The incentives from the Harding-Mellon program spurred a "massive period of entrepreneurship, including inventions from Kleenex to Scotch tape, sliced bread to the zipper. Radio was the biggest of them all," noted Folsom.[82] Jim Powell noted that "GNP expanded year after year without inflation. Productivity improved, and real wages increased. The stock market tripled. There was a dramatic expansion of the middle class."[83] In describing the economy at large, Michael A. Bernstein wrote:

> From 1920 to 1929, total manufacturing output rose a bit over 50 percent, an aggregate figure that masked even more rapid rates of growth in major sectors of the economy. Primarily manufacturing grew at a rate of 2.5 percent per year; end-product manufacturing increased 4 percent per year throughout the decade. By 1929, the economy of the United States produced four-tenths of the world's coal, seven-tenths of the world's petroleum, a third of the world's hydro-electric power, half the world's steel, and virtually all of the world's natural gas.[84]

Follow the Example of President Warren G. Harding

"GNP expanded year after year without inflation. Productivity improved, and real wages increased. The stock market tripled. There was a dramatic expansion of the middle class."

How to "Return to Normalcy" in America:

"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. Virtually all the measures of economic well-being suggested that the economy had reached new heights in terms of prosperity and the achievement of improvements in human welfare," noted Vedder and Gallaway.[85]

Warren Harding, Calvin Coolidge, and Andrew Mellon realized the importance of constitutional government and economic liberty. Their ideas were repudiated in 1933 with the election of Franklin D. Roosevelt and the emergence of the New Deal. However, it must be noted that during the 1932 presidential campaign Roosevelt attacked Hoover for fiscal irresponsibility and he, Roosevelt, called for a balanced budget. Roosevelt, through his New Deal, revived the progressive tradition and adopted Keynesian-style policies throughout the 1930s.

The New Deal never was able to fully cure the depression nor the unemployment problem. President Roosevelt launched his New Deal in an effort to use the force of the federal government to end the Great Depression. He used bold experimentation in policy, something that Harding warned against, and the New Deal philosophy centered on the idea of political experimentation — trying policy proposal after policy proposal regardless of the constitutional strictures.

By 1939, the New Deal had not succeeded in ending the Great Depression. Secretary of the Treasury Henry Morgenthau, Jr., a close confidant of Roosevelt, offered a candid and dismal assessment of the New Deal to congressional Democrats:

> We have tried spending money. We are spending more than we have ever spent before and it does not work. And I have just one interest, and if I am wrong… somebody else can have my job. I want to see this country prosperous. I want to see people get enough to eat. We have never made good on our promises… I say after eight years of this Administration we have just as much unemployment as when we started… And an enormous debt to boot![86]

Ideas and elections do have consequences, and President Obama is following the same policy directives of the New Deal. This is not surprising since the President emerged from the same progressive tradition as Roosevelt. President Obama, just as Roosevelt, saw the Great Depression as a unique opportunity to remake or redesign the social contract of government. President Obama is following suit with his efforts at expanding

"By 1939, the New Deal had not succeeded in ending the Great Depression."

the administrative state, radical environmental reform, and universal health care.

In a speech honoring President George Washington, President Harding spoke of the need to not only honor and be good stewards of the principles of the American Founding, but he also warned against constitutional drifting. "I wonder what the great Washington would utter in warning, in his passionate love of the republic and his deep concern about future welfare, if he could know the drift today," noted Harding.[87] Both in the general public and in government today a serious void exists of reflecting on the political principles of the Constitution and the American Founders. Perhaps one of the greatest qualities of Harding, Coolidge, and Mellon was their prudent governing style that always considered the principles of the Founding when contemplating policies.

The current debate that faces our nation is a debate over ideas. Warren G. Harding has provided a blueprint for policy leaders to follow, and that blueprint is the Constitution. Harding, Coolidge, and Mellon understood the importance of governing by the Constitution and what the proper role of government should be in our constitutional system. Unfortunately, progressives or modern liberals like President Obama also believe they understand the proper role of government and how the Constitution should be interpreted.

Today, just as in 1920, the nation is in an economic recession. Government spending is out of control, the federal budget is over $3 trillion, the national debt is over $11 trillion, and the deficit for the current fiscal year is approaching $2 trillion. It has also been projected that the federal government would have to borrow at least $9 trillion to pay for President Obama's agenda. The major entitlement programs of Social Security and Medicare are approaching bankruptcy. In solving these questions, policy makers should contemplate how Warren Harding and Andrew Mellon would approach these policy problems. Both Harding and Mellon would be alarmed over the excess and reckless spending and the devotion to the principle of unlimited government through various "reforms."

The historian Alan Brinkley in his book, The End of Reform: New Deal Liberalism in Recession and War, told a story about liberals who gathered in the 1940s who were discouraged about the progress of progressive policies and leadership and that "'it is no longer feared, it is assumed, that the country is headed back to normalcy, that Harding is just around the corner.'"[88] Currently progressives and liberals are hoping that President Obama can lead another wave of reform, but perhaps the ideas Harding and other conservatives stood for — limited government and economic liberty — will be resurrected and the nation will once again "return to normalcy."

Follow the Example of President Warren G. Harding

"Perhaps one of the greatest qualities of Harding, Coolidge, and Mellon was their prudent governing style that always considered the principles of the Founding when contemplating policies."

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