*The Harding-Coolidge Path to Prosperity: What Policymakers Can Learn From the 1920s to Solve the Budget Crisis and Create a Sound Economy**

by

John Hendrickson
Public Interest Institute
Mount Pleasant, IA

***The Author and staff at Public Interest Institute wish to thank Mr. Bruce Kelley, President of EMC Insurance, for his generous support of our mission and research.**

August 2011

POLICY STUDY

No. 11-4

PUBLIC INTEREST INSTITUTE

POLICY STUDY
August 2011
No. 11-4
Public Interest Institute

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POLICY STUDIES are published by Public Interest Institute *at* Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

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The nation is suffering from an anemic recovery from the "Great Recession," with a high 9.2 percent unemployment rate, which is followed by uncertainty in the economy and a looming threat of a double-dip recession. The escalating national debt is another albatross hanging on the economy. The national debt is over $14 trillion and federal government spending is creating trillion-dollar deficits — $1.4 trillion in 2009, $1.3 trillion in 2010 — and a $1.5 trillion deficit is projected for 2011. Deficits will continue unless spending is reduced. This is in addition to the unfunded liabilities of entitlement programs, which will consume the entire federal budget unless reformed. The federal government is currently spending 24 percent of the Gross Domestic Product (GDP).

President Warren G. Harding faced a similar economic situation when he was sworn in as President in 1921. The nation was suffering from the depression of 1920, which included 11.7 percent unemployment as well as a decline in both business and agriculture. The nation faced a massive level of debt because of World War I and high tax rates, with the highest rate at over 70 percent on top incomes.

President Harding confronted the depression of 1920 with a conservative agenda of reducing government spending, cutting tax rates, paying down the national debt, and repealing excessive regulations. Harding relied on Andrew Mellon, who served as Secretary of the Treasury, and Charles G. Dawes, who served as Director of the Bureau of the Budget, to lead the Administration in their efforts at tax and spending reform. In confronting a $6 billion budget and a $24 billion national debt, which calculated for inflation in today's dollars would be $290 billion, the Administration pursued a policy of economy in government. Harding, Mellon, and Dawes believed that the spending and debt levels, unless reduced, posed a significant economic threat to the nation.

President Coolidge continued the Harding economic program of reducing spending and tax rates. The result was a period of economic expansion, low unemployment, and budget surpluses. The Harding-Coolidge economic program influenced conservative leaders such as President Ronald Reagan, who also used limited-government means to solve an economic crisis and led the nation into a period of economic prosperity. Harding and Coolidge proved that committed leadership to constitutional principles and policies leads to national prosperity.

Although much has changed since the 1920s, especially the emergence of the welfare state entitlement programs, conservatives can still apply limited government constitutional solutions to today's policy problems. Harding and Coolidge were guided by the Constitution and their policies proved that following a limited government course resulted in prosperity.

Policymakers can learn a lot from the policies and political philosophies of Harding and Coolidge, who both showed principled leadership in solving policy problems.

Executive Summary

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Introduction:

The current spending and tax debate is a reflection of a much larger debate over the size, scope, and functions of the federal government. Throughout our nation's history we have debated the role of the federal government, its relationship to the states and the people; and constitutional interpretation. Although these debates have been spirited and often sparing they have greatly impacted the nation. Today's debt crisis brings this question front and center and cannot be ignored. This summer, Congress will be debating whether or not to raise the debt ceiling as the national debt has escalated to over $14 trillion and our federal government is running trillion-dollar annual deficits. Federal spending and the welfare state have reached a pinnacle.

The question is whether or not policymakers will address the debt and spending crisis or ignore the problem, which will lead to further economic uncertainty and a more severe economic crisis than the "Great Recession." Both Republicans and Democrats offer different solutions to solve the debt crisis. Representative Paul Ryan (R-WI) is championing a plan to reduce spending and tax rates, while reforming entitlements. Ryan's plan is opposed by President Barack Obama and the Democrats, who have charged the GOP with "gutting" entitlement programs such as Medicare and pursuing spending and tax rate reductions that will only benefit Wall Street and "the rich."

As this debate continues over the summer and into the fall, policymakers should look to history as a guide, specifically identifying policies that are in line with the Constitution. This debate is also a philosophical debate, which means that the Democrats will offer solutions based on the progressive philosophy of past Presidents such as Franklin D. Roosevelt and his New Deal.

Republicans, who trend conservative, need to reexamine their own Party's history and heritage as the conservative party. President Warren G. Harding and President Calvin Coolidge are two prime examples for policymakers to follow. Both have been largely forgotten, although recently more attention is being paid to their ideas.

Harding, who was elected by a landslide in 1920, faced similar circumstances to those of today. The nation was in the midst of the post-World War I depression and the federal government faced a large debt, high tax rates, and excessive regulation. Harding was not a progressive as were his predecessors Theodore Roosevelt and Woodrow Wilson, but rather he was a conservative who believed that the best solution to solving the national problems was to return to constitutional principles.

His Administration achieved remarkable results by cutting government spending, reducing regulations, and lowering tax rates. The Harding policy record is a prime example of conservative leadership in achieving limited-government goals, especially in reducing federal spending, which is not an easy task. Although Harding died in office, his policy agenda was continued by President Calvin Coolidge.

Coolidge continued chipping away at government expenditures, reducing tax rates, and paying down the national debt. The result was a period of economic prosperity based on limited-government principles (the "Roaring Twenties"). Businesses responded favorably to the Harding-Coolidge policies, gained confidence, and the economy recovered quickly.

The challenges of today are not identical to those of the 1920s. A lot has changed, especially with the growth of the welfare and regulatory state, but the political philosophy and ideas that influenced Harding and Coolidge can be applied to solve the fiscal and economic challenges of today. In order to solve our fiscal and economic problems, while restoring employment and business confidence, we should follow a policy agenda rooted in constitutional limited government. The Harding-Coolidge policy blueprint is a proven example.

Our Current Fiscal Situation

In a recent report, The Heritage Foundation noted that:

> Over the past decade, Congress and the Presidents have undertaken a surge of spending that has accelerated America's speed along the road to economic ruin. Since 2000, non-defense discretionary outlays have expanded 50 percent faster than inflation. Antipoverty spending has risen 83 percent faster than inflation, and other programs have grown rapidly. Despite multiple government audits that have shown many programs to be duplicative or ineffective, no significant federal program has been eliminated in more than a decade. Government continues to grow, financed by taxes on Americans and an explosion of borrowing that is imposing huge additional burdens on future generations.[1]

The escalating problem of government spending is a bipartisan problem, that is, both Republicans and Democrats can share in the blame for increasing the size and scope of the federal government. The current fiscal dilemma is how to deal with a rising national debt of over $14 trillion and an uncontrolled spending binge. The federal government is also running deficits in the trillions ($1.4 trillion in 2009, $1.3 trillion in 2010) and the

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"The government must begin to withdraw from a whole series of programs outside its constitutional mandate."

Congressional Budget Office is estimating a $1.5 trillion deficit for 2011. Deficits will continue running into the future unless spending is reduced.

President Barack Obama has proposed a federal budget for 2012 which, if enacted by Congress, will spend at least $3.7 trillion. This reckless spending follows that of President George W. Bush who "proposed not only the first $3 trillion U.S. budget, but also the first $2 trillion federal budget in 2002, only nine years ago."[2] As the Heritage Foundation notes: "The underlying problem that it addresses is simple: The government is doing things it should not be doing and spending far more than we can afford to pay or should be paying."[3]

Former Senator Barry M. Goldwater, in *The Conscience of a Conservative,* wrote that "the government must begin to withdraw from a whole series of programs outside its constitutional mandate…"[4] The federal government is currently spending 25 percent of Gross Domestic Product (GDP), and "spending since World War II is at record levels as a proportion of the U.S. economy."[5] "The federal government is borrowing 40 cents of every dollar that it spends. The accumulated national debt caused by this and past borrowing already stands at nearly 70 percent of the country's annual economic output and is set to climb at least 100 percent by the end of this decade."[6]

A large part of the spending crisis is the increasing cost of entitlement programs, especially Social Security, Medicare, and Medicaid. This is in addition to future entitlements such as the Patient Protection and Affordable Care Act (Obamacare), which provides universal healthcare. These programs are running unfunded liabilities into the trillions, and unless reformed will consume the federal budget. Michael Tanner, a Senior Fellow at the Cato Institute, recently wrote:

> The U.S. government is about to exceed its statutory debt limit of $14.3 trillion. But that actually underestimates the size of the fiscal time bomb that this country is facing. If one considers the unfunded liabilities of programs such as Medicare and Social Security, the true national debt could run as high as $119.5 trillion.[7]

The solution as stated by the Heritage Foundation, along with many other conservatives and libertarians, is "to start moving decisively toward a federal government that is limited and carries out its appropriate function."[8] In other words, it is time to restore a limited government as designed by the Constitution. As Michael Tanner noted:

> Moreover, to focus solely on debt is to treat a symptom rather than the underlying disease. We

> face a debt crisis not because taxes are too low but because government is too big. If there is no change to current policies, by 2050 federal government spending will exceed 42 percent of GDP.[9]

The problem goes deeper than just spending and tax policy — it is also a philosophical debate over the size and scope of the federal government. Throughout the history of the United States, Americans have debated the proper role of government. In the 20th century, the progressive movement was very influential in turning the nation away from constitutional limited government as established by America's Founders.

Progressives argued that limited government was no longer sufficient to govern a modern heavily industrialized economy as the United States had become in the late 19th and early 20th centuries. Progressives such as President Theodore Roosevelt argued that the federal government was the only method available to control the forces of uncontrolled capitalism. Progressives believed that the Constitution was a "living" document, that is, an evolving document that can change with the times and conditions of the nation. Under this philosophy, the Commerce Clause, Necessary and Proper Clause, and General Welfare Clauses, among others in the Constitution, are viewed as allowing extremely robust government regulation of the economy. A current example would be the progressive argument for the health insurance mandate under the Patient Protection and Affordable Care Act (Obamacare), which requires individuals to purchase medical insurance.

Progressives not only introduced the regulatory state to regulate the economy through rules and government agencies, but also the welfare or entitlement state. President Franklin D. Roosevelt's response to the Great Depression with the New Deal was revolutionary in not only how it strengthened the regulatory authority of the federal government over the economy, but also created a new social compact between individuals and their government with the emergence of Social Security. President Roosevelt, in his 1944 State of the Union address, even argued for a "Second Bill of Rights," which called for the federal government to provide new "rights" for the people in the form of education and health care, among others.

In describing the political significance of the New Deal, Judge Robert H. Bork in *The Tempting of America*, wrote:

> The New Deal was an economic and governmental upheaval. It stood for a sudden and enormous centralization of power in Washington over matters previously left to state govern-

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ments or left in private hands, a centralization accomplished largely through the assumption of greatly expanded congressional powers to regulate commerce and lay taxes.[10]

The New Deal approach to fighting the Great Depression was not only implementing political and economic reform for the long-term through regulation and programs such as Social Security, but also using Keynesian economic policies to try to end the Depression. It was the New Deal Keynesian economic policies such as the Public Works Administration and Works Progress Administration, among others, that spent enormous sums of money in an unsuccessful attempt to resolve the Depression. Keynesian-style economic policies, the most recent example being the $787-$800 billion economic stimulus which failed to solve the current unemployment problem, are still being utilized to fight economic downturns, when the evidence does not support their value in creating private sector jobs.

The role and cost of government has expanded greatly since the New Deal and especially under President Lyndon B. Johnson's Great Society, which further expanded the power of the regulatory and welfare state. Even Republican Presidents such as Richard M. Nixon and George W. Bush have followed the progressive trend. It was the Bush administration that expanded Medicare and provided more federal oversight of education with the No Child Left Behind policy.

The policies and philosophy governing President Barack Obama and the Democrats in Congress are rooted in the progressive New Deal/Great Society legacy. The Keynesian economic policies, the increase in regulation over the economy, and new entitlements such as the Patient Protection and Affordable Care Act are all rooted in the same political philosophy. Not only have these policies failed to bring the nation into full economic recovery from the recent "Great Recession," but they are also causing more uncertainty in the economy. A continuation of these policies will not resolve the fiscal crisis. This philosophy has caused the current problems in the United States.

"The emergence of the Tea Party movement and Republican victory in the 2010 midterm elections reflects a national debate over the direction of public policy."

The emergence of the Tea Party movement and Republican victory in the 2010 midterm elections reflects a national debate over the direction of public policy. More importantly, with the House of Representatives in Republican control, it has brought about a serious debate on how to cut government spending, reduce tax rates, reform entitlements, and eliminate unnecessary and burdensome regulations. Representative Paul Ryan (R-WI), who serves as Chair of the House Budget Committee, has put forth a solid plan to reduce government spending and reform entitlements. Other Republican plans offered by the Republican Study Committee and various GOP Senators are also addressing policies to reduce government spending. Although rolling back federal spending will be difficult, there is good news in the form of the Tea Party patriots who are putting pressure on lawmakers to address the fiscal crisis and the many Republicans who are pushing the debate for Congress to address the spending and budget reform.

Using History as a Guide

In solving the fiscal crisis, reforming the tax code, and generating sound economic policies that will lead to a strong dollar and economy, policymakers should examine history to find a policy blueprint for guidance. Although progressive and modern liberals will follow in the tradition of Franklin D. Roosevelt and the New Deal, conservative and libertarian policymakers should not only follow the Founders, but also examine the political and economic philosophy of the 1920s. Other presidential Administrations, such as the Reagan Administration, and indeed individuals who argued for limited government could be studied as well, but the era of the 1920s contains a good example of spending and tax reductions, which are so needed today. It should be noted that President Ronald Reagan was an admirer of Coolidge and his philosophy of a limited government. As a symbolic move President Reagan hung a portrait of Coolidge in the Cabinet Room of the White House to demonstrate his commitment to conservative principles.

The Presidencies of Warren G. Harding and Calvin Coolidge demonstrate not only leadership in restoring an economy during a time of depression, but also successfully following a constitutional limited-government policy agenda. Although it has been 90 years since Warren G. Harding was inaugurated as President of the United States, the principles that guided his Administration can usher in a successful recovery today.

For the conservative, historical understanding serves as a guide. "Conservatism reenacts the past not as a past program but as a set of beliefs and values which are translated into the current idiom," wrote historian Stephen J. Tonsor.[11] In addition, "conservatism, then, is a set of beliefs, principles, and historical reflections which have come to us from the past."[12] One of the principles of conservatism as outlined by Russell Kirk, the intellectual leader of the American conservative movement in the aftermath of World War II, is that "the past is a great storehouse of wisdom."[13]

"The conservative believes that we need to guide ourselves by the moral traditions, the social experience, and the whole complex body of knowledge bequeathed to us by our ancestors," wrote Kirk.[14] President Abraham Lincoln, in defining conservatism, stated, "What

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'"The Conservative approach is nothing more or less than an attempt to apply the wisdom and experience of the revealed truths of the past to the problems of today."'

is conservatism? Is it not the preference for the old and tried, over the new and untried?"[15] Perhaps Goldwater stated it best when he wrote:

> We are daily consigned by 'enlightened' commentators to political oblivion: Conservatism, we are told, is out of date. The charge is preposterous and we ought to boldly say so. The laws of God, and of nature, have no dateline. The principles on which the Conservative political position is based have been established by a process that has nothing to do with the social, economic, and political landscape that changes from decade to decade and from century to century. These principles are derived from the nature of man, and from the truths that God has revealed about His creation. Circumstances do change. So do the problems that are shaped by circumstances. But the principles that govern the solution of the problems do not. To suggest the Conservative philosophy is out of date is akin to saying that the Golden Rule, or the Ten Commandments, or Aristotle's Politics are out of date. The Conservative approach is nothing more or less than an attempt to apply the wisdom and experience of the revealed truths of the past to the problems of today. The challenge is not to find new or different truths, but to learn how to apply established truths to the problems of the contemporary world.[16]

"Principles and not programs lie at the heart of conservatism," wrote Tonsor.[17]

Therefore, policymakers should use history as a guide when formulating policies, and at the heart of policymaking should be the principle of prudence. As former United States Senator and conservative leader Robert A. Taft stated, "while I am willing and ready to consider changes, I want to be darned sure — darned sure — that they are really better than what we have."[18] As an example, policymakers should examine the Presidency of George Washington, who was confronted with a serious debt crisis and needed to formulate an economic policy for our new nation. President Washington and Alexander Hamilton, who served as our first Secretary of the Treasury, designed an economic plan that not only put the nation on a sound fiscal footing, but created the American capitalistic system.

Economic historian Burton Folsom, Jr., recently wrote that:

> Thus he [Washington] committed the U.S. to paying off all debts

incurred in fighting the Revolutionary War. When he took office in 1789, the U.S. owed about $41 million in IOUs to thousands of merchants, bankers, and citizens who loaned money to Washington and other leaders for guns, supplies, and food. Sometimes those IOUs are called 'continental bonds.' We also owed about $11 million to the French for financial (and military) aid in overcoming the British.[19]

Both Washington and Hamilton understood the economic and moral importance of not only paying off the obligations of the United States, but also creating a sound national economic system. Hamilton's economic plan, which not only created a plan to pay off the debts, also created the first Bank of the United States, placing the nation on a sound capitalistic economic footing. "In less than forty years after Washington's presidency, the entire national debt was eliminated and the U.S. actually (for a brief period) was a nation of surpluses and no debt," stated Folsom.[20] "Hamilton's fiscal system, which breathed life into the Constitution, was an example of conservatism — of constructive, prudential change — at its best," wrote historian and Hamilton biographer Forrest McDonald.[21]

Hamilton's economic and political philosophy was an influence on not only future political leaders such as Henry Clay and Daniel Webster, but also the future Republican Party under the leadership of Abraham Lincoln, William McKinley, Warren Harding, and Calvin Coolidge. Harding, Coolidge, and Andrew Mellon, who served as Secretary of the Treasury, were influenced by Hamilton's philosophy. "The party now in power in this country, through its present declaration of principles, through the traditions which it inherited from its predecessors, the Federalists and the Whigs, through their achievements and through its own, is representative of those policies which were adopted under the lead of Alexander Hamilton," stated Vice President Calvin Coolidge in a 1922 address to the Hamilton Club.[22]

Even today, the American Founding and our history can serve as a guide in formulating sound public policy. Solving the fiscal problems of today can occur by following prudent policies rooted in the Constitution. Policymakers can learn from Washington and Hamilton and other past presidential Administrations, which confronted difficult economic times such as those of Presidents William McKinley and Ronald Reagan, but in this context we will take a close look at the economic policies of the Harding and Coolidge Administrations and apply the principles they used to address the policy

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problems of today. Both Harding and Coolidge were traditional conservatives who believed that constitutional limited government was the best policy solution in governing the nation. Both the Harding and Coolidge Administrations actually adhered to constitutional limited government in their pursuit of policies to solve their economic challenges.

Progressivism and the Growth of Government

"A history of the renewed effort to limit government should begin by understanding how government got too big and why it tended to stay that way," wrote John Samples, who is the Director of Representative Government at the Cato Institute.[23] Samples, who wrote *The Struggle to Limit Government: A Modern Political History*, argues that the "progressives sought to reconstruct America."[24] Samples quoted the progressive intellectual Herbert Croly, who stated that "'the bondage from which Americans needed, and still need, emancipation is…from the evasions, the incoherence, the impatience, and the easy-going conformity of their own intellectual and moral traditions.'"[25] Many progressive politicians and intellectuals argued that the Constitution was simply too old or argued that it was not sufficient to deal with complex problems of the 20th century. The progressives in many ways challenged the political philosophy of the Founding Fathers. Progressives saw government and the Constitution as evolving to solve the social and economic problems of the nation through the force of government. They did not want, however, to be bothered by actually changing the Constitution using the procedures included by the Founders in Article V.

Progressive political Administrations, especially those under President Theodore Roosevelt and President Woodrow Wilson, believed that the 20th century demanded a new form of government to take up the challenge of governing a modern industrial society. They believed that Jeffersonian limited government would no longer work.[26] President Roosevelt argued that only the federal government could police the modern economy from the so-called evils of big businesses or trusts. In other words, public welfare must originate from the federal government. President Roosevelt strengthened the regulatory state over the economy through various administrative agencies and used the power of the presidency to lead the progressive crusade. President Woodrow Wilson, although not always agreeing with Roosevelt, continued to expand the role of government in the economy with such programs as the Federal Trade Commission, among others.

A large change in the scope and size of government occurred as President Wilson took the United States into the Great War or World War I. "Notwithstanding the accretions of governmental authority during the Progressive Era, the American economy remained, as late as 1916, predominantly a market system," noted economic historian and scholar Robert Higgs.[27] American entrance into World War I changed the economy as the Wilson Administration was fighting a "war to end all wars" and a "war for democracy," while at the same time centralizing the economy for war purposes.

As Higgs noted:

> 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.'[28]

In addition to the centralization of the economy, the federal government spent vast sums of money to finance the war as well, and instituted high income-tax rates to provide the revenue. "World War I clearly influenced Wilson's use of the tax and his centralization of power — he promoted an increase in the top tax rate from seven to fifteen percent in 1916; then, during the war, Wilson secured an increase to a 77 percent marginal rate on the country's largest incomes," noted Folsom.[29] "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," stated Higgs.[30]

Higgs noted that "the fiscal activities of the federal government assumed permanently enlarged dimensions:"[31]

> 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

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> exceeded $747 million in a fiscal year; during the 1920s they were never less than $2,800 million…The public debt, which had been slightly more than $1 billion before the war, was over $25 billion at the end of the war and remained almost $17 billion as late as 1929.[32]

The nation suffered an economic depression in the aftermath of World War I. The depression of 1920-1922 was a severe economic crisis that occurred as the massive war centralization of the Wilson Administration shifted to a peacetime economy. This economic crisis, which is outlined in more detail in Public Interest Institute's POLICY STUDY: *How to "Return to Normalcy" in America: Follow the example of President Warren G. Harding*, was described by economists Richard Vedder and Lowell Gallaway "as the most important business cycle development of the first three decades of the twentieth century."[33]

Milton Friedman and Anna Schwartz in their book, *A Monetary History of the United States, 1867-1960*, wrote 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."[34] The downturn in the economy, which affected both business and agriculture, caused high unemployment that registered between 11.7 and 15 percent. "In 1919-1920 there were more than thirty thousand bankruptcies, almost half-a-million farm foreclosures, and five million unemployed workers," noted economic historian and Coolidge biographer Robert Sobel.[35]

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."[36] The severity of the depression of 1920 and the aftermath of World War I turned the nation away from President Wilson's progressivism. In addition, Wilson had ignored the economy and spent all of his energy trying to secure the United States membership in the League of Nations. All of these factors contributed to a national conservative turn in the 1920 presidential election. The depression of 1920, because of Wilson's policies, turned into a brief economic crisis because of President Harding's policies.

A Return to Normalcy

The Republican Party entering into the 1920 presidential campaign was not a united party. The Grand Old Party had been recovering from the internal civil war caused by the 1912 split when Theodore Roosevelt and his fellow progressives split the party and formed their Bull Moose Party in opposition to President William Howard Taft. Several candidates were considered in

1920, but eventually the GOP nominated Warren G. Harding, who had been serving as a member of the Senate from Ohio. Calvin Coolidge, Governor of Massachusetts, was nominated as Vice President to complete the ticket.

Harding formulated a conservatism, which appealed to many Americans. In a May 14, 1920 address, Harding reflected the preference for a return to conservatism 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 dispassionate; not experiment, but equipoise; not submergence in internationality, but sustainment in triumphant nationality.[37]

The Republican Party platform echoed Harding's call for a "Return to Normalcy." Both Harding and the GOP platform called for a return to constitutional government. The platform also charged the Wilson Administration with "gross neglect" in the aftermath of World War I that not only led to the depression of 1920, but resulted in reckless spending, in "huge tax burdens and in a high cost of living."[38]

In his speech accepting the Republican nomination for President, Harding outlined his support for constitutional government and the need to restore the national economy; suffering from the depression. As Harding stated:

> Gross expansion of currency and credit have deprecated 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 or courage failed. The unpreparedness for peace was little less costly than unpreparedness for war.[39]

Harding understood that in order to achieve an economic recovery, spending and tax reductions were vital:

> We will attempt intelligent and courageous deflation, and strike at government borrowing which enlarges the evil, and we will attack high cost of government with every energy and facility which attend Republican capacity. We promise that relief which will attend

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> 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.[40]

Harding argued that there has not "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."[41] Harding understood that if the nation was to recover from the post-war depression, spending, tax rates, and regulations would all have to be reduced in order to achieve a significant economic recovery.

Robert Murray, a historian of the 1920s and biographer of Harding, wrote that for the nation "what currently mattered was the existence of unemployment, high taxes, business depression, farmer unrest, waste in government operations, and an unsettled peace."[42] It was this national uncertainty that made Harding and the conservative message so popular. Harding's policy program, the "normalcy" program, was based on his commitment to constitutional limited government. "Harding was a confirmed conservative on the matter of taxation, government economy, and the relationship between government and business."[43]

"He had always decried high taxes, government waste, and excessive governmental interference in the private sector of the economy," wrote Murray.[44] Harding, who praised Hamilton and often spoke of him, saw his policies as a model for economic stability.[45] He also looked favorably to Abraham Lincoln and William McKinley, and it was McKinley whom Harding modeled his campaign after. In *The World's Work*, Harding wrote an article, "Less Government in Business and More Business in Government," where he argued that there was a "need for a closer understanding between American government and American business."[46]

Harding also rejected the progressive impulse for change, as he believed that not only should prudence dictate any change, but it also must be in line with the Constitution. He argued that:

> We must uproot from our national government the yearning to undertake enterprises and experiments which were never intended as the work of our government, which have proved ineffective to a point which sickens us all, and which our government is incapable of performing without wreckage or chaos.[47]

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In his *World's Work* article, Harding poked fun at Wilson's progressive policy vision, New Freedom, when he wrote that, "I believe, after all is considered, that there may be a little idealism of a simple and old-fashioned kind in seeking a new freedom from too much government in business and not enough business in government."[48]

Harding believed that the progressive efforts to regulate the economy had gone too far and the result was curbing business confidence and growth:

> We have had too much government in business. I mean by this that on the one hand we have allowed our government to engage too much in enterprises which it has bungled and which American business can do better, safer, cheaper, and on the other hand we have had too much ineffective tinkering with our economic structure.[49]

Harding did not oppose all regulation of the economy, but he believed that regulation must have a purpose. "On the contrary I would urge that the regulation of our businesses, when regulation became necessary, should not be less but more effective that it has ever been," stated Harding.[50] In addition, he argued that "nothing could be more deplorable, however, than substituting, as we have substituted, quantity of laws for quality of laws, as if the thickness of our statute books were a measure of wise legislation."[51]

The message of economy in government resonated with the electorate on Election Day. The Harding-Coolidge ticket won in a landslide against the Democrat James Cox, also from Ohio, and Franklin D. Roosevelt. Harding and Coolidge captured 404 electoral votes and earned over 60 percent of the vote, which resulted in a GOP victory for the "Normalcy" program.[52] The election of Harding brought a return to conservatism in America.

Harding Confronts the Economy

On March 4, 1921, Warren Harding was inaugurated as President of the United States. In his inaugural address, Harding outlined the priorities of his Administration, which were a reflection of his campaign. He committed himself and his Administration to constitutional government and he stated that "any wild experiment will only add to the confusion."[53] Harding also stated that:

> Our supreme task is the resumption of our onward, normal way. Reconstruction, readjustment, restoration all these must follow. I would like to hasten them…We can reduce the abnormal expenditures, and we will.

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'"We must uproot from our national government the yearning to undertake enterprises and experiments which were never intended as the work of our government."'

> We can strike at war taxation, and we must. We must face the grim necessity, with full knowledge that the task is to be solved, and we must proceed with a full realization that no statute enacted by man can repeal the inexorable laws of nature.[54]

"Our most dangerous tendency is to expect too much from government, and at the same time do for it too little," stated Harding.[55] He called for "administrative efficiency, for lightened tax burdens, for sound commercial practices," and "for more efficient business in government administration."[56] Harding's "desire to reduce government expenditures and inject business methods into government operations met with almost universal congressional approval."[57]

In addition to the Congress and the nation, businesses also started to move in a more confident direction once Harding was inaugurated. As Robert Sobel wrote:

> On June 12, when Harding-Coolidge were nominated, the Dow-Jones Industrial Average closed at 78.93. On Election Day in November, it was at 85.23, primarily because Wall Street expected that Harding's election would be good for business.[58]

Harding's Administration also reflected a pro-business tilt, especially with the selection of Andrew Mellon as Secretary of the Treasury. Mellon would be one of the more dominant economic policy voices during the 1920s. His other "all-star" cabinet members included Herbert Hoover, who would serve as Secretary of Commerce and who would also chair a special conference on unemployment; Charles Evans Hughes as Secretary of State; and Henry Wallace as Secretary of Agriculture. In an effort to bring about a reduction in expenditures, Harding selected Charles Dawes to serve as the Director of the new Budget Bureau. Both Mellon and Dawes would be instrumental in achieving Harding's economic policy goals.

Harding also appointed conservatives to the judiciary and various administrative posts. In terms of the Supreme Court, he nominated William Howard Taft as Chief Justice, and nominated George Sutherland, Pierce Butler, and Edward Sanford as Associate Justices. All were "conservative, property-orientated," and the "personnel of regulatory commissions took on a decidedly conservative cast."[59] The conservative direction of the Administration was described in *The Presidency of Warren G. Harding*:

> Under Harding the government thus took on an increasingly pro-business appearance.

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"Harding's desire to reduce government expenditures and inject business methods into government operations met with almost universal congressional approval."

> He started reshaping the regulatory commissions, a process that continued through the 1920s. Commissions were staffed by people from every sector of the economy they were intended to control. The progressive concept of regulatory commissions as policemen was scrapped. The commissioners became the advocates of the groups they were to regulate. The vestiges of progressivism passed from the scene.[60]

The primary economic priorities of the Harding Administration included budget reform, spending and tax reduction, tariff reform, and immigration reform. For the purpose of this essay the focus will be placed on spending and tax reform.[61] In a special address to Congress, Harding called on the Congress to implement his economic program. In confronting government spending and debt, he stated:

> 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…The unrestrained tendency to heedless expenditure and the attending growth of public indebtedness, extending from federal authority to that of state and municipality and including the smallest political 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. [62]

Harding stressed not only budget and spending reform, but also allowing policies to encourage business and economic growth. As Harding stated:

> A very important matter is the establishment of the Government's business on a business basis. There was toleration of the easy-going unsystematic method of handling our fiscal affairs, when indirect taxation held the public unmindful of the federal burden. But there is knowledge of the high cost of government today, and the high cost of living is inseparably linked with high cost of government…I have said to the people we meant less government in business as well as more business in government. It is well to

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'"I know of no more pressing problem at home than to restrict our national expenditures within the limits of our national income."'

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> have it understood that business has a right to pursue its normal, legitimate, and righteous way unimpeded, and it ought have no call to meet government competition where all risk is borne by the public treasury.[63]

The pro-business mentality of the Harding Administration was symbolic of the larger pro-business attitude during the 1920s. This was a decade where businesses and entrepreneurs flourished with the pro-business policies pouring forth from policies of the "Normalcy" program.

Harding, Dawes, Mellon, and the Federal Budget:

The efforts at budget reform resulted in the Budget and Accounting Act of 1921, which reformed the federal budget process. The Budget and Accounting Act

> required the President to compile an annual, comprehensive executive budget based on estimates of both the government's financial needs and its revenues for the coming fiscal year. The act also established the Bureau of the Budget to help the President exercise the new budget authority… Finally the Act created the General Accounting Office as an auditing arm of Congress.[64]

Charles G. Dawes, an eminent banker, was selected by Harding to serve as the first Director of the Bureau of the Budget, and he was described as an individual who had a "reputation for efficiency and outspoken bluntness."[65] Previously, Harding had been interested in Dawes to serve as Secretary of the Treasury for the purpose of reducing expenditures, but Dawes believed that only the Director of the Bureau of the Budget could have an independence that a cabinet secretary could not, especially when forcing spending reductions.[66]

Dawes shared the Harding, Coolidge, and Mellon view of running government like a business and he "agreed to serve for one year, maintaining that by that time he would have made so many enemies he would no longer be effective" as Budget Director.[67] In fulfilling Harding's goal of reducing expenditures, Dawes understood the difficulty in cutting government spending — something that still remains today. Dawes in fact warned Harding of the difficulty in reducing government spending:

> You must realize that you are the first President to tackle the job of a coordinated business control over the departments. I doubt if you recognize the strength of the 150 years of archaisms which you must fight. 'Delay, linger, and

'"The high cost of living is inseparably linked with high cost of government."'

> wait' is the watchword of bureaucracy.[68]

In describing the task of cutting government expenditures, Dawes said "the task was like having a 'toothpick with which to tunnel Pike's Peak.'"[69] Harding put his full support behind Dawes and their objective of reducing federal spending. To meet the objectives of spending reform, the Harding Administration held a series of meetings under the Business Organization of the Government, and it was at these meetings that Harding and Dawes made their objectives known to the Administration.

"'The present administration is committed to a period of economy in government…There is not a menace in the world today like that of growing public indebtedness and mounting public expenditures…We want to reverse things,'" explained Harding.[70] Both Harding and Dawes expected full cooperation within the Administration, which at times was difficult and required Harding to discipline and remind individuals of the objective of spending reductions.[71] At the outset of the Administration taking office, Harding outlined his plan to reduce expenditures, which demonstrated not only his commitment, but seriousness in restoring economy in government. President Harding demonstrated both a strong and activist leadership in achieving the policy goals of his Administration.

The presence and support of Andrew Mellon "was the key as far as Dawes was concerned, and when it became evident that he intended to cooperate, Dawes's task was made easier."[72] Mellon, who is considered the best Secretary of the Treasury since Alexander Hamilton, argued that balancing the budget and reducing the national debt are two fundamental policies of the government.[73] As Mellon argued:

> Throughout its history the United States has followed the policy laid down by Hamilton of funding the public debt so that it can be liquidated without undue hardship. At the same time, the policy has been strictly adhered to that expenditures for the ordinary operations of the Government must be discharged out of current receipts raised from taxes.[74]

In the aftermath of World War I, the nation was facing a national debt of at least $24 billion and the federal budget was over $6 billion. Both the national debt, along with the high levels of spending and taxation, were concerns for the Administration.

Mellon wisely stated keeping government "expenditures within its income is the further policy of keeping the revenues not too greatly in excess of expenditures."[75] In addition,

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"Mellon, argued that balancing the budget and reducing the national debt are two fundamental policies of government."

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'"One cannot successfully preach economy without practicing it."'

Mellon argued that "in the case of the government, therefore, every new expenditure must be paid out of new borrowings."[76] Both Mellon and Dawes would work together and proceed to rollback spending and tax rates.

Dawes proceeded to launch across-the-board expenditure cuts for the federal budget. As an example, "the Navy was forced to return over $100,000,000, while the Agriculture Department found itself shorn over $25,000,000."[77] The efforts and budget scrutiny by Dawes paid off:

> In December 1921, Harding was able to present to Congress with the first complete federal budget for fiscal 1922-1923. An estimate of $3,505,754,727 was set before Congress; when the books were closed on that year in 1923, there was an unspent surplus. Dawes saved the government well over one billion dollars in his attempts at retrenchment.[78]

Not only was Harding successful at this first endeavor to reduce government expenditures, it resulted in "over $1.5 billion less than actual expenditures for the year 1921."[79] Dawes, who had agreed to serve only a year, stated:

> I am carrying back as souvenirs of this experience the handwritten pasteboard sign in the office door: "Bureau of the Budget," and two brooms. I wish I could take back some of the secondhand furniture which we raked up in the Treasury cellars. One cannot successfully preach economy without practicing it. Of the appropriation of $225,000, we spent only $120,313.54 in the year's work. We took our own medicine.[80]

"By the end of the next fiscal year, June 30, 1923, federal expenditures had been cut still further to $3,294,000,000. This figure represented almost a $2 billion savings over the final Wilson year of 1921," wrote Murray.[81]

Harding and Dawes not only had to discipline their own Administration to adhere to budget cuts, but also to battle Congress and special interests. One major example of Harding's moral courage in keeping to a limited budget was over the issue of a Veteran's Bonus Bill. Congress supported a bonus for World War I veterans, but Harding opposed the measure because it was not fiscally wise, especially as the nation was recovering from the depression of 1920. "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 that which is before you," Harding told the Senate in regard to

the Bonus bill.[82]
Congress passed the Bonus bill, but Harding vetoed the measure, which — although politically unpopular — demonstrated remarkable courage and principle by the President to hold to his policy commitment of spending restraint.

Murray, in his biography of Harding, *The Harding Era*, provides three reasons why Harding was successful at reducing federal spending: passage of the Budget and Accounting Act, the appointment of Charles Dawes, and finally the leadership of Harding himself.[83] "Too little credit is often given to this last factor," noted Murray.[84]Charles Dawes also came to the same conclusion as Murray as he stated that "this work could not have been done under a weak, vacillating or irresolute man."[85] In describing Harding's leadership, Dawes wrote:

> His ideas of business are exact. His knowledge of business principles and what must be done to establish them is as profound as that of any great business man. This being so, his larger knowledge of government, political conditions and the state of public opinion, make him the hope, and the only hope, for a permanent improvement in the government business system. Without him a mere budget law would mean little or nothing.[86]

Dawes also stated that "everyone did as they damn pleased" in regard to spending and he described cabinet members as "comanches," while the Congress was a "nest of cowards;" but Harding "waved the axe and said that anybody who didn't cooperate, his head would come off," and the result was "velvet for the taxpayer."[87]

Historian Paul Johnson, in his book *Modern Times*, wrote that "Harding can be described as the only President in American history who actually brought about massive cuts in government spending…"[88] Overall Harding achieved a significant reduction in spending. "Federal spending was cut from $6.3 billion in 1920 to $5 billion in 1921 and $3.2 billion in 1922," noted Jim Powell.[89] Harding and the Republican Party viewed a balanced budget as not only good for the economy, but also as a moral virtue.

Harding also started to hammer away at the large national debt, which he believed was both an economic threat and a moral issue. Harding, including many Republicans, believed in the morality of a balanced federal budget. Mellon argued that "two guiding principles have dominated the financial policy," which consisted of "balancing the budget" and the "payment of the public debt."[90] Mellon argued:

> In view of the great carrying charge of the debt, it would seem imperative that the debt

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"Harding and Dawes not only had to dicipline their own Administration to adhere to budget cuts, but also to battle Congress and special interests."

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> 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.[91]

The efforts by Harding, Dawes, and Mellon in slashing government spending allowed the national debt to be reduced. "Under Mellon's guidance, the debt fell from $23.1 billion in 1921 to $21.8 billion in 1923," and the debt fell "to a low of $16.5 billion in [Herbert] Hoover's first year as President."[92]

"Harding and the Republican Party viewed a balanced budget as not only good for the economy, but also a moral virtue."

Harding, the Tariff, and Tax Reduction

Harding realized that tax reduction, along with spending reductions, was a necessary aspect to revive the economy. Tax and tariff reform were a large part of the Normalcy policy program. Harding believed that both revising the tariff and cutting tax rates were a necessity for economic recovery. The Republican Party at this time was the party that favored the protective tariff. Many conservatives and libertarians, who otherwise find Harding's policies favorable, see his — as well as Coolidge's and Mellon's — support for a protective tariff as a violation of free-market economic policy. Nevertheless in his campaign, Harding called for a "protective tariff policy" that will be "saving Americanism again."[93] Congress responded by passing the Fordney-McCumber Tariff Act, which raised tariff rates, but this policy was in the tradition of Republican economic philosophy.

Harding and Andrew Mellon also pursued tax reform, which was a vital aspect of their economic policy to spur economic growth. Tax rates were extremely high at the end of World War I with the top income tax rate at over 70 percent. As Treasury Secretary, Mellon took the lead on pursuing tax reform, and in *Taxation: The People's Business*, he outlined the principles for a sound tax policy. Mellon argued that a successful tax policy 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 of development of business and industry on which, in the last analysis, so much of our prosperity depends.[94]

Mellon also understood that high rates of taxation do not necessarily mean higher sources of government revenue and "taxes which are inherently excessive are not paid."[95] "The high tax rates inevitably put pressure upon the taxpayer to withdraw his capital from productive business and invest it in tax-securities or to find other lawful methods of avoiding the realization of taxable income," argued Mellon.[96]

High taxation will result in "sources of taxation 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," stated Mellon.[97] Mellon argued that "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 be obtained by lower rates."[98]

In regard to increasing revenues with lower taxes, Mellon stated:

> On the other hand, a decrease of taxes causes an inspiration to 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.[99]

To some extent Mellon's philosophy was a forerunner to the supply-side theory of economics, which gained popularity in President Ronald Reagan's Administration. Although today's supply-siders would not support all of the GOP economic policies of the 1920s, both share the same commitment to the idea that limited government policies are the backbone of a sound economy.

Harding and Mellon had a difficult time getting the first Revenue Act through Congress, but when the Revenue Act of 1921 was passed it paved the way for future tax reductions. "The combined top marginal normal surtax rate fell from 73 percent to 58 percent in 1922," noted economist Veronique de Rugy.[100]

Harding began his Administration with a severe economic depression and high unemployment and by 1923 the economy was moving into full recovery. "The reduction in the national debt of

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'"A decrease of taxes causes an inspiration to trade and commerce which increases the prosperity of the country so that revenues of the Government, even on a lower basis of tax, are increased."'

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$2.4 billion, the decrease in government expenditures, the sympathetic attitude of the Commerce Department, the generally favorable tariff program — all filled the business world with confidence and expectancy," stated Murray.[101] In addition, the economy was showing general improvement in many areas including a "rise in real earnings, in consumer expenditures, in production, in purchasing, in industrial payrolls, in the availability of work, and in profits."[102] Overall, the economy was moving into a full recovery from the depression of 1920.

President Harding's economic policies resulted in the strong economic growth and recovery. As Robert Murray stated:

> It inaugurated not only an era of good times but also the final enthronement of business philosophy. In this, President Harding and his policies had played a major role. Harding and his administration had supplied the political framework and general atmosphere which has made the postwar restoration of business confidence both rapid and inevitable. The so-called Coolidge boom which followed was obviously one of Harding's most important legacies to his successor.[103]

"President Harding's economic policies resulted in the strong economic growth and recovery ."

In August 1923, on a trip to visit the western United States and Alaska, President Warren G. Harding died from complications of high blood pressure. Vice President Coolidge was then sworn into office and would continue the "Normalcy" policy agenda. President Coolidge, along with Mellon and Herbert Hoover, would continue the policies of reducing government spending, rolling back tax rates, and paying down the national debt. The economy continued its full recovery from the Harding policies, although it took on a new name of "Coolidge Prosperity."

It was Harding's policies that resolved the depression of 1920. In ending the depression, Paul Johnson wrote that "Harding had done nothing except cut government expenditure, the last time a major industrial power treated a recession by classical laissez-faire methods…"[104]

The Coolidge Tax and Spending Record

Upon taking the presidency, Calvin Coolidge in "his first cabinet meeting on August 14, 1923, stated that all the Harding policies, not just some of them would be continued," which implied that the "Normalcy" policy program would proceed.[105] In his first annual message to Congress in December 1923, Coolidge reiterated the need to continue with spending reductions and tax reform. "Our main problems are domestic problems. Financial stability is the first requisite of sound government," Coolidge told the Congress.[106] As Coolidge stated:

> For seven years the people have borne with uncomplaining courage the tremendous burden of national and local taxation. These must both be reduced. The taxes of the Nation must be reduced now as much as prudence will permit, and expenditures must be reduced. High taxes reach everywhere and burden everybody. They gear most heavily upon the poor. They diminish industry and commerce. They make agriculture unprofitable. They increase the rates on transportation. They are a charge on every necessary of life. Of all services which the Congress can render to the country, I have no hesitation in declaring to neglect, to postpone it, to obstruct it by unsound proposals, is to become unworthy of public confidence and untrue public trust.[107]

Coolidge also developed a close working relationship with Andrew Mellon, and he would come to depend on Mellon's advice in forming economic policies. Although Dawes had left the Bureau of the Budget after his first year — he agreed only to serve one year — he was replaced by Brigadier General Herbert M. Lord, who was seen as capable as Dawes.[108] It was Mellon who would be the economic point-man in the Administration, and both shared the same conservative values toward government.

Tax reform and further tax cuts would be central for both Coolidge and Mellon. In fact, both "Coolidge and Mellon strongly urged Congress to return rates to their prewar levels, and they finally compromised with the passage of the Simmons-Longworth bill in 1923, which reduced the top rate to 40 percent."[109] Both believed that lower tax rates led not only to economic growth, but led to individual economic growth as well, in other words, the "fair chance of Abraham Lincoln," which stated that individuals could work their way to success as Lincoln did. As Coolidge stated. "the wise and correct course to follow in taxation and all other economic legislation is not to destroy those who have already secured success but to create conditions under which everyone will have a better chance to be successful."[110]

The Republican Party had suffered some electoral setbacks in the congressional midterm election of 1922, which for the party in power was not unusual. Nevertheless, the Republicans rallied around President Coolidge and Vice President Charles G. Dawes in the 1924 presidential election. Just as with all presidential elections, the 1924 election was

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"Harding's policies that resolved the depression of 1920... the last time a major industrial power treated a recession by classical laissez-faire methods."

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'"The wise and correct course to follow in taxation and all other economic legislation is not to destroy those who have already secured success but to create conditions under which everyone will have a better chance to be successful."'

a significant election. Recently, Garland S. Tucker, III., has written a notable history of the 1924 election, *The High Tide of American Conservatism: Davis, Coolidge, and the 1924 Election*. The election was a three-way race between Republican Calvin Coolidge, Democrat John Davis, and the Progressive candidate Senator Robert LaFollette — "Fighting Bob" — of Wisconsin. Coolidge and the Republicans campaigned on the economic prosperity initiated by the Harding policies. "The Full Dinner Pail" campaign slogan of the Coolidge-Dawes ticket demonstrated the success of the Harding economic program.

The Republican platform in 1924 rallied around the Harding economic program. In praising President Harding, the platform stated:

> When the Republican administration took control of the government in 1921, there were four and a half million unemployed; industry and commerce were stagnant; agriculture was prostrate; businesses were depressed; securities of government were selling below their par values…Today industry and commerce are active; public and private credits are sound…We demand and the people of the United States have a right to demand rigid economy in government. A policy of strict economy enforced by the Republican administration since 1921 has made possible a reduction in taxation and has enabled the government to reduce the public debt by $2,500,000,000. This policy vigorously enforced has resulted in a progressive reduction of public expenditures until they are now two billion dollars per annum less than 1921. The tax burdens of the people have been relieved to the extent of 41,250,000,000 per annum.[111]

The GOP platform "commended the firm insistence of President Calvin Coolidge upon rigid government economy," while calling for a continuation of the Harding policies.[112] It was clear that the GOP was rallying behind the Harding policy program which would be continued by Calvin Coolidge.

The election demonstrated a clear conservative turn in American politics even with the LaFollette progressive candidacy, because both Coolidge and Davis were conservatives — Davis being one of the last conservative Democrats in the mold of Thomas Jefferson and Grover Cleveland. The result was a landslide victory, with the Coolidge-Dawes ticket winning 382 electoral votes. The "Keep Cool with Coolidge" victory was also a victory for the Harding economic program and a political mandate to continue with the “Normalcy” policies. Harding had been vindicated in the 1924 election.

In his Inaugural Address on March 4, 1925, Coolidge outlined a continuation of sound economic policies rooted in spending and tax reform. Not only were these policies good for the economy, but they were also moral policies. As Coolidge stated:

> the policy that stands out with the greatest clearness is that of economy in public expenditure with reduction and reform of taxation…But the cost of our combined governments is likewise beyond definition. Not only those who are now making their tax returns, but those who meet the enhanced cost of existence in their monthly bills, know by hard experience what this great burden is and what it does. No matter what others may want, these people want a drastic economy. They are opposed to waste. They know that extravagance lengthens the hours and diminishes the rewards of their labor. I favor a policy of economy, not because I wish to save money, but because I wish to save people. The men and women of this country who toil are the ones who bear the cost of Government. Every dollar that we carelessly waste means that their life will be so much the more meager. Every dollar that we prudently save means that their life will be so much the more abundant. Economy is idealism in its most practical form.[113]

“These questions involve moral issues,” stated Coolidge, that is constitutional rights and the “right to hold property, both great and small, which our Constitution guarantees.”[114] As Goldwater later wrote, echoing the Harding and Coolidge philosophy: “Government does not have an unlimited claim on the earnings of individuals…And a man’s earnings are his property as much as his land and the house in which he lives. Indeed, in this industrial age, earnings are probably the most prevalent form of property.”[115] High tax rates not only prevented economic growth, but deprived individuals of their property rights.

Just as with the Harding Administration, the Business Organization of the Government meetings were still held on a regular basis by President Coolidge. In June 1924, the Coolidge Administration gathered for the seventh regular meeting of the Business Organization of Government.[116] Coolidge’s speech, “The economy in the interest of all,” focused on the need to continue with the necessity to reduce ex-

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‘“The men and women of this country who toil are the ones who bear the cost of Government. Every dollar that we carelessly waste means that their life will be so much more meager.”’

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"High tax rates not only prevent economic growth, but deprived individuals of their property rights."

penditures and tax rates, as well as the moral implications and responsibilities the Administration faced.[117]

Coolidge argued that the "power to tax is the power to destroy," and he warned about the abuse of high taxation, and "unless people can enjoy that reasonable security in possession of their property, which is guaranteed by the Constitution, against unreasonable taxation, freedom is at an end."[118] He also agreed with Mellon's statement that "the government is just a business, and can and should be run on business principles."[119] Coolidge also stated that "so far as it is within my power I will not permit increases in expenditures that threaten to prevent further tax reduction or that contemplates such an unthinkable thing as an increase in taxes."[120] A balanced budget and just tax rates were moral economic pillars of the Harding and Coolidge Administrations.

In speaking with the Jewish Philanthropic Societies of New York City, Coolidge stated that he regarded "a good budget as among the most noblest monuments of virtue."[121] The policy objective for Coolidge and Mellon was not only reducing expenditures, but also achieving greater tax reform. The purpose for economy in government, according to Coolidge, was

> securing greater efficiency in government by the application of the principles of the constructive economy, in order that there may be a reduction of the burden of taxation now borne by the American people. The object sought is not merely a cutting down of public expenditures. That is only the means. Tax reduction is the end.[122]

"Government extravagance is not only contrary to the whole teaching of our Constitution, but violates the fundamental conceptions and the very genius of American institutions," stated Coolidge.[123] In other words, it was time to bring policies back into line with the Constitution, and implementing a return to limited government was the only method to achieve this goal.

Coolidge also argued that a reduction in tax rates would be an economic stimulus for business growth:

> Economy in the cost of Government is inseparable from reduction in taxes. We cannot have the latter without the former. From some sources the statement has been made that this continuing drive for economy in Federal expenditures is hurting business. I have been unable to determine how reduction in taxes is injurious to business. If there is one thing above all others that

> will stimulate business it is tax reduction. If the Government taxes less, private business can have more. If constructive economy in Federal expenditure can be assured it will be a stimulation to enterprise and investment.[124]

He also spoke prophetic words when he stated that "we are fast reaching a time when we cannot look forward to appreciable reduction in the legitimate cost of Government."[125] Coolidge also understood and knew of the constitutional drift of the nation that would occur in the future:

> Unfortunately the federal government has strayed far afield from its legitimate business. It has trespassed upon the fields where there should be no trespass. If we could confine our federal expenditures to the legitimate obligations and functions of the federal government a material reduction would be apparent. But far more important than this would be its effect upon the fabric of our constitutional form of government, which tends to be gradually weakened and undermined by this encroachment.[126]

Both the Harding and Coolidge Administrations were moving the nation closer to traditional constitutional limited government, while at the same time creating a prosperous national economy. The Coolidge-Mellon approach to spending and tax reduction was working. "But in addition to bringing about a condition in which the Government debt is being rapidly liquidated while at the same time taxes are greatly reduced, capital has become abundant and prosperity reigns," stated Coolidge.[127]

Amity Shlaes, an economic historian, recently addressed Coolidge's interest and dedication to cutting spending on an interview with the American Public Media radio program Marketplace. In the interview, she stated:

> But Coolidge did three things that stand out today, especially from our budgetary perspective. The first was to monitor federal spending — personally, with his own pencil, and intensely. As President, Coolidge met with his budget director every Friday at 10:00AM. Once cuts had been made, Coolidge made more. Coolidge monitored every penny spent down to the salt and pepper on the dinner table. The housekeeper at 1600 Pennsylvania Ave., Miss Riley, managed to cut her outlays from $11,667.10 one year down to $9,116.39

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'"Unfortunately the federal government has strayed far afield from its legitimate business. It has trespassed upon the fields where there should be no trespass."'

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"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. The Mellon tax cuts restored incentives to work, save, and invest, and discouraged the use of tax shelters."

the next. "Very fine improvement," the President wrote in a note to her.[128]

Under Coolidge the federal budget fell from $3.1 billion in 1923 to $2.9 billion in 1928, with the low point being $2.8 billion in 1927.[129] Robert Sobel wrote that "there had been a budget surplus of $292 million in 1920, which rose to $509 million in 1921, $736 million in 1922, and declined slightly to $712 million in 1923, and rose to $963 million in 1924."[130] Coolidge and Mellon also achieved significant tax reform. "In 1924, the top 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," noted Veronique de Rugy.[131] The economic impact of the tax cuts was significant, as illustrated by de Rugy:

> The tax cuts 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. The Mellon tax cuts restored incentives to work, save, and invest, and discouraged the use of tax shelters.[132]

The decade had started in depression and by 1923 the national economy was booming as a result of the Harding and Coolidge policies. Industries such as radio and the automobile grew tremendously. In reflecting on the economic impact of the Harding and Coolidge Administrations, Patrick J. Buchanan wrote:

> Unemployment, 12 percent when Harding took office, was three percent when Calvin Coolidge left. Manufacturing output rose 64 percent in the Roaring Twenties. Between 1923 and 1927, U.S. growth was seven percent a year. At decade's end, America produced 42 percent of the world's goods.[133]

"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," wrote Vedder and Gallaway.[134] Milton Friedman and Anna Schwartz described the 1920s as "a period of high prosperity and stable economic growth."[135] In addition, "millions of Americans entered the middle class and attained a measure of economic security they had not known before."[136] Although the economy did well, with the exception of the overproduction in agriculture, the 1920s represented significant individual and business growth.

The economy of the 1920s reflected tremendous growth:

> From 1920 to 1929, total manufacturing output rose a bit over 50 percent, an aggregate figure that is masked even more by 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 each 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 of the world's steel, and virtually all of the world's natural gas.[137]

"Economic facts indicate that prosperity was indeed more widespread — and more widely distributed — than at any time in American history up to this point," wrote Garland S. Tucker.[138] As Jim Powell wrote in addressing the remarkable record of the 1920s,

> Altogether, spending and taxes were cut 50 percent during the 1920s, and about 30 percent of the national debt was paid off. There were budget surpluses throughout the 1920s. Unemployment fell to 1.8 percent, the lowest U.S. peacetime level in more than 100 years.[139]

What Can We Learn From Harding and Coolidge

The Harding-Coolidge record is impressive, but there are detractions. Some critics, especially from a libertarian perspective, view the 1920s as an era of continued government enlargement even with spending and tax reductions. Critics on the progressive or liberal side tend to view the decade of a period of laissez-faire retrenchment, corruption, and policies that favored the wealthy and big business, while the farmer and laborer suffered only to be saved by Franklin D. Roosevelt's New Deal. From a libertarian perspective economist Randall Holcombe, for example, argues that "the foundations of the New Deal go back to the 1920s and before, and that FDR's initiatives were not a crucial turning point in the growth of American government."[140] In addition he argues that "normalcy, in the Harding-Coolidge sense, meant peace and prosperity, but it also meant a continuation of the principles of Progressivism, which enabled the Republican Party to retain support of its progressive element."[141] In a sense, he is arguing that even with the pro-business agenda, which included spending and tax cuts, the 1920s represented a slow continuation of progressive principles.

An examination of American political history will demonstrate the long-term debate over the size and scope of gov-

What Policymakers Can Learn From the 1920s

"The 1920s...A period of high prosperity and stable economic growth... Millions of Americans entered the middle class and attained a measure of economic security they had not known before."

ernment, and since President George Washington's Administration the federal government has grown significantly. Since the Founding, the federal government has continued to grow in size at various rates throughout our history. The nation in the 1920s certainly took a more conservative turn, and although government did not return to the era of President McKinley, Harding and Coolidge were not progressives, but rather conservatives. Harding and Coolidge were successful in restraining government as well as creating a period of significant economic growth and meeting their policy objectives of reducing spending and tax rates.

Both Harding and Coolidge were traditional Republicans, which was part of the Federalist and Whig political tradition going back to Alexander Hamilton and Henry Clay. Their political philosophy was rooted in this tradition. In fact, Harding's heroes were Alexander Hamilton, Abraham Lincoln, and William McKinley. It was this history that guided both their political philosophy and policy agendas.

Harding and Coolidge also had a deep admiration for the Constitution, as seen through their many writings and speeches. Their policies were rooted in constitutional limited government and both did their best to be guided by the Constitution. Both Harding and Coolidge opposed the progressive view of the "living" Constitution, and as mentioned earlier, they tended to select conservatives to fill the judiciary and administrative agencies. Harding and Coolidge were also supportive of businesses and understood the need for economic growth.

Progressives view both Harding and Coolidge with frustration, and certainly tended to view their economic policies, especially the Mellon tax cuts, as favoritism to businesses and the wealthy. Harding and Coolidge fought against the progressive philosophy. Coolidge, for example, vetoed the McNary-Haugen farm bill, which was progressive legislation directed at government support for farmers. In the end, progressives in the Republican Party tended to feel more "comfortable" with Commerce Secretary Herbert Hoover than Harding, Coolidge, or Mellon. Hoover was considered an "activist" by many conservatives in the Republican Party.

When examined by their policies and political philosophy, both Harding and Coolidge are clear traditional conservatives who supported limited government policies. Russell Kirk's "Ten Principles of Conservatism," which outlines the philosophy of conservatism, applies to Harding and Coolidge. Kirk's "Ten Principles" are:

- First, the conservative believes that there exists an enduring moral order.
- Second, the conservative adheres to custom, convention, and continuity.

"Harding and Coolidge also had a deep admiration for the Constitution... Their policies were rooted in constitutional limited government and both did their best to be guided by the Constitution."

The Harding-Coolidge Path to Prosperity

- Third, conservatives believe in what may be called the principle of prescription.
- Fourth, conservatives are guided by their principle of prudence.
- Fifth, conservatives pay attention to the principle of variety.
- Sixth, conservatives are chastened by their principle of imperfectability.
- Seventh, conservatives are persuaded that freedom and property are closely linked.
- Eighth, conservatives uphold voluntary community, quite as they oppose involuntary collectivism.
- Ninth, the conservative perceives the need for prudent restraints upon power and upon human passions.
- Tenth, the thinking conservative understands that permanence and change must be recognized and reconciled in a vigorous society.[142]

All of these principles reflect the political philosophy of Harding and Coolidge. So although the federal government and tax rates were not rolled back to pre-war levels, the Harding and Coolidge Administrations demonstrated a conservative commitment to prudence in government, that is, constitutional government, and the question must be asked if any Administration since Coolidge has made such an effort at reducing spending and tax rates. Harding and Coolidge were not ideologues, that is, they were not trying to reform or create a perfect society, but rather they wanted to restore the nation back to its founding principles.

What Policymakers Can Learn From the 1920s

Today's fiscal challenge, as outlined at the beginning of this essay, will not be solved easily, but policymakers can learn much from Harding and Coolidge. The first lesson is that limited government policies work. The economic record from the 1920s demonstrates that a policy of limited government is not only constitutional, but leads to prosperity. The prime example is President Ronald Reagan, who ushered in a period of conservatism and economic prosperity through his tax policies. Although Reagan was not as successful as Harding or Coolidge on the spending front — something which he regretted — he reversed a severe economic recession and awakened a spirit of constitutionalism in the nation. For Harding and Coolidge, limited government was not just a slogan, but the objective of their Administrations. President Ronald Reagan also followed in the Harding-Coolidge tradition.

The second lesson that can be applied today is that tax cuts work to stimulate economic growth. The Mellon tax cuts of the 1920s led to significant economic growth and business confidence. Historically, tax cuts have been successful. President John F. Kennedy,

"In the end, progressives in the Republican Party tended to feel more comfortable with Commerce Secretary Herbert Hoover than Harding, Coolidge, or Mellon. Hoover was considered an activist by many conservatives in the Republican Party."

The Harding-Coolidge Path to Prosperity

"Policymakers can learn much from Harding and Coolidge. The first lesson is that limited government policies work. The economic record of the 1920s demonstrates that a policy of limited government is not only constitutional, but leads to prosperity."

President Ronald Reagan, and more recently President George W. Bush all utilized tax cuts to stimulate the economy. The economy today could benefit greatly from tax reform and across-the-board tax cuts, such as a lowering of the federal corporate tax rate, which is one of the highest in the world.

The third lesson is that the economy will react to political policies. The current economy is suffering from a slow recovery because of uncertainty over current policies. Businesses are fearful of the rapid increase in regulation and new health-care laws, the possibility of higher taxes, and the uncertainty of uncontrolled spending and monetary policies that may lead to inflation. Harding said it best when he stated:

> We must always exact, from ourselves and our businesses, high, honorable and fair dealings by law, and by law's rigid enforcement when necessary, but we must repeal and wipe out a mass of executive orders and laws which, failing to serve effectively that purpose, serve only to leave American business in anxiety, uncertainty and darkness.[143]

The fourth lesson is leadership. President Harding and President Coolidge, along with individuals such as Mellon and Dawes, demonstrated remarkable political leadership in reducing government expenditures and meeting their policy goals. Reducing spending was not an easy task for the Harding and Coolidge Administrations. They had to fight for their desired reductions. All understood the importance of restoring "economy in government," and a commitment is needed today to do the same to address the $14 trillion debt, the deficits, and the $3 trillion federal budget. Certainly the political culture has changed, especially with the influence of the New Deal and Great Society, but policymakers will have to address spending soon or risk an economic collapse. Conservatives such as Representative Paul Ryan (R-WI) and Senator Tom Coburn (R-OK) are leaders who are applying limited government principles to forge policy prescriptions aimed at solving the fiscal dilemma.

The fifth lesson, which may be the most important, is faith in the Constitution. Both Harding and Coolidge expressed faith in the Constitution and respected the wisdom of the Founding Fathers. A sense of "constitutional worship" existed in many of the political leaders of the 1920s and 1930s.[144] It was during the 1920s and into the 1930s that conservatives battled on the political front and in the courtroom over traditional limited government versus the "living" Constitution. As constitutional historian Melvin Urofsky noted, "Scholars see the 1920s as a battleground between traditionalist fearful of the new ways and modernists eager to shed the shackles of older ideas and practices."[145] It was the progressives who believed the Constitution was outdated, not Harding and Coolidge. Both Harding and Coolidge had an immense amount of respect for the Founding Fathers, and just as with Reagan, their speeches reminded the nation of the value of the Constitution and the need to follow the virtues and principles of the Constitution.

In comparing the current debt problem to the debt problem that confronted the Harding and Coolidge Administrations, Burton Folsom wrote:

> He [Andrew Mellon] said that the $24 billion national debt after World War I was so immense that it possibly threatened U.S. economic strength permanently. That $24 billion, which is about $300 billion in 2011 dollars, is less than one-third of the debt proposed by President Obama in one year alone. In other words the President has proposed a deficit for 2012 that is three times larger than the entire national debt after World War I.[146]

Today's fiscal and economic crisis is not a laughing matter. Throughout history our policymakers have confronted our debts, whether that is Hamilton or Harding and Coolidge. The best solution for a sound economy requires wisdom from the past and following the Constitution. The good news is that many in Congress are taking up the challenge to solve our fiscal crisis and many organizations such as the Cato Institute, The Heritage Foundation, Hoover Institution, and smaller state groups such as Public Interest Institute are working towards restoring constitutional principles.

During the early part of the 1930s, Coolidge was growing more concerned at the direction of national policy. When interviewed about what made his Administration successful he stated that, "when I was in office, tax reduction, debt reduction, tariff stability and economy were the things to which I gave attention. We succeeded on those lines."[147] The wisdom of Harding and Coolidge is desperately needed today and their wisdom can help in our return to constitutional limited government. As James Beck wrote:

> The purpose of a constitution is not only to create the mechanics of government, but, far more, to subject the passing impulses of a living generation to the reasonable restraints of the collective wisdom of the past. This is impossible unless the individual has some knowledge of the wisdom of the past and a real sense of obligation to the future.[148]

What Policymakers Can Learn From the 1920s

"Both Harding and Coolidge had an immense amount of respect for the Founding Fathers, and just as with Reagan, their speeches reminded the nation of the value of the Constitution and the need to follow the virtues and principles of the Constitution."

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"Groups such as Public Interest Institute are working towards restoring constitutional principles."

Policymakers can learn much from the Harding-Coolidge economic blueprint. Certainly the United States cannot return to the 1920s or even the 1950s, but that does not mean the principles and ideas of Harding and Coolidge are outdated. Paul Weyrich and William S. Lind, both leaders in the modern conservative movement, wrote *The Next Conservatism*, which is a philosophical guide and policy blueprint for conservatives to follow.[149] Weyrich and Lind not only urge conservatives to return to the traditional conservative principles, but also their economic program is based on similar ideas that Harding and Coolidge implemented. *The Next Conservatism* calls for an economic policy based on tax reduction and reform, spending reduction, eliminating unnecessary regulations, and restoring America's manufacturing base.[150] These are all policies that Harding and Coolidge believed were essential for a sound economy. The economic challenge of today cannot be postponed and it will not be solved following New Deal-style policies as President Barack Obama and Democrats tend to believe. Achieving a sound economy and fiscal future will require returning back to constitutional principles — the principles that guided both Harding and Coolidge. As Harding stated, "it is good to meet and drink at the fountain of wisdom inherited from the Founding Fathers of the Republic."[151]

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Public Interest Institute
***at* Iowa Wesleyan College**
600 North Jackson Street
Mount Pleasant, IA 52641-1328

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Mount Pleasant, IA 52641-1328