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Calvin Coolidge and the Moral Case for Economy

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The following is adapted from a talk given at Hillsdale College on January 27, 2013, during a conference on "The Federal Income Tax: A Centenary Consideration," co-sponsored by the Center for Constructive Alternatives and the Ludwig von Mises Lecture Series.

With the federal debt spiraling out of control, many Americans sense an urgent need to find a political leader who is able to say "no" to spending. Yet they fear that finding such a leader is impossible. Conservatives long for another Ronald Reagan. But is Reagan the right model? He was of course a tax cutter, reducing the top marginal rate from 70 to 28 percent. But his tax cuts—which vindicated supply-side economics by vastly increasing federal revenue—were bought partly through a bargain with Democrats who were eager to spend that revenue. Reagan was no budget cutter—indeed, the federal budget rose by over a third during his administration.

An alternative model for conservatives is Calvin Coolidge. President from 1923 to 1929, Coolidge sustained a budget surplus and left office with a smaller budget than the one he inherited. Over the same period, America experienced a proliferation of jobs, a dramatic increase in the standard of living, higher wages, and three to four percent annual economic growth. And the key to this was Coolidge's penchant for saying "no." If Reagan was the Great Communicator, Coolidge was the Great Refrainer.

Enter Coolidge

Following World War I, the federal debt stood ten times higher than before the war, and it was widely understood that the debt burden would become unbearable if interest rates rose. At the same time, the top income tax rate was over 70 percent, veterans were having trouble finding work, prices had risen while wages lagged, and workers in Seattle, New York, and Boston were talking revolution and taking to the streets. The Woodrow Wilson administration had nationalized the railroads for a time at the end of the war, and had encouraged stock exchanges to shut down for a time, and Progressives were now pushing for state or even federal control of water power and electricity. The business outlook was grim, and one of the biggest underlying problems was the lack of an orderly budgeting process: Congress brought proposals to the White House willy-nilly, and they were customarily approved.

The Republican Party's response in the 1920 election was to campaign for smaller government and for a return to what its presidential candidate, Warren Harding, dubbed "normalcy"—a curtailing of government interference in the economy to create a predictable environment in which business could confidently operate. Calvin Coolidge, a Massachusetts governor who had gained a national reputation by facing down a Boston police strike—"There is no right to strike against the public safety by anybody, anywhere, any time," he had declared—was chosen to be Harding's running mate. And following their victory, Harding's inaugural address set a different tone from that of the outgoing Wilson administration (and from that of the Obama administration today): "No altered system," Harding said, "will work a miracle. Any wild experiment will only add to the confusion. Our best assurance lies in efficient administration of our proven system."

One of Harding's first steps was to shepherd through Congress the Budget and Accounting Act of 1921, under which the executive branch gained authority over and took responsibility for the budget, even to the point of being able to impound money after it was budgeted. This legislation also gave the executive branch a special budget bureau—the forerunner to today's Office of Management and Budget—over which Harding named a flamboyant Brigadier General, Charles Dawes, as director. Together they proceeded to summon department staff and their bosses to semiannual meetings at Continental Hall, where Dawes cajoled and shamed them into making spending cuts. In addition, Harding pushed through a tax cut, lowering the top rate to 58 percent; and in a move toward privatization, he proposed to sell off naval petroleum reserves in Wyoming to private companies.

Unfortunately, some of the men Harding appointed to key jobs proved susceptible to favoritism or bribery, and his administration soon became embroiled in scandal. In one instance, the cause of privatization sustained damage when it became clear that secret deals had taken place in the leasing of oil reserves at

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Teapot Dome. Then in the summer of 1923, during a trip out West to get away from the scandals and prepare for a new presidential campaign, Harding died suddenly.

Enter Coolidge, whose personality was at first deemed a negative—his face, Alice Roosevelt Longworth said, "looked as though he had been weaned on a pickle." But canny political leaders, including Supreme Court Justice and former President William Howard Taft, quickly came to respect the new president. Secretary of State Charles Evans Hughes, after visiting the White House a few times that August, noted that whereas Harding had never been alone, Coolidge often was; that whereas Harding was partial to group decisions, Coolidge made decisions himself; and most important, that whereas Harding's customary answer was "yes," Coolidge's was "no."

The former governor of Massachusetts was in his element when it came to budgeting. Within 24 hours of arriving back in Washington after Harding's death, he met with his own budget director, Herbert Lord, and together they went on offense, announcing deepened cuts in two politically sensitive areas: spending on veterans and District of Columbia public works. In his public statements, Coolidge made clear he would have scant patience with anyone who didn't go along: "We must have no carelessness in our dealings with public property or the expenditure of public money. Such a condition is characteristic of undeveloped people, or of a decadent generation."

If Harding's budget meetings had been rough, Coolidge's were rougher. Lord first advertised a "Two Percent Club," for executive branch staffers who managed to save two percent in their budgets. Then a "One Percent Club," for those who had achieved two or more already. And finally a "Woodpecker Club," for department heads who kept chipping away. Coolidge did not even find it beneath his pay grade to look at the use of pencils in the government: "I don't know if I ever indicated to the conference that the cost of lead pencils to the government per year is about $125,000," he instructed the press in 1926. "I am for economy, and after that I am for more economy," he told voters.

Coolidge in Command

"It is much more important to kill bad bills than to pass good ones," Coolidge had once advised his father. And indeed, while Harding had vetoed only six bills, Coolidge vetoed 50—including farming subsidies, even though he came from farming country. ("Farmers never had made much money," he told a guest, and he didn't see there was much the government could rightly do about it.) He also vetoed veterans' pensions and government entry into the utilities sector.

Perhaps reflecting his temperament, Coolidge favored the pocket veto—a way for the president to reject a bill without a veto message and without affording Congress a chance to override a veto. Grover Cleveland, who Coolidge admired, had used this veto in his day, as had Theodore Roosevelt. But Coolidge raised its use to an art form. *The New York Times* referred to it as "disapproval by inaction."

Gaining public acceptance of having a Scrooge as president required playing the role of Scrooge consistently. Coolidge took care to do so, visiting his saving habit on everyone around him. It was at the White House dinner table, for instance, that Coolidge's attack on "pork" became literal: At one point the housekeeper proudly showed the President the spread for a big dinner, and instead of receiving praise she was scolded for serving "an awful lot of ham." She departed soon after.

The Hurricane Katrina of the Coolidge years, the great Mississippi River flood of 1927, wiped out many areas of the South. Yet Coolidge pointedly chose not to visit the devastated areas—sending Commerce Secretary Herbert Hoover in his place—out of concern that a presidential visit might encourage the idea of federal spending on disaster relief, for which there were already advocates in Congress.

This triggered resentment, which Senator Thaddeus Caraway of Arkansas expressed in personal terms: "I venture to say that if a similar disaster had affected New England the President would have had no hesitation in calling an extra session. Unfortunately he was unable to visualize the situation." But soon thereafter floods tore across Vermont, the state where Coolidge had spent his childhood, and calls for him to visit grew loud—to no avail. "He can't do for his own, you see, more than he did for the others," as one Vermonter explained. Vermont, like Arkansas, would have to recover without federal intervention.

In doing research for my new biography of Coolidge, I reviewed his presidential appointment books and found a clue as to why he was able to be so consistent: sheer discipline. Coolidge and his budget director met every Friday morning before cabinet meetings to identify budget cuts and discuss how to say "no" to the requests of cabinet members. Most presidents give in after a time—Eisenhower being a good example—but Coolidge did not, despite the budget surpluses during his presidency. He held 14 meetings with his budget director after coming to office in late 1923, 55 meetings in 1924, 52 in 1925, 63 in 1926, and 51 in 1927.

In a conference call with Jewish philanthropists, Coolidge explained his consistency this way: "I believe in budgets. I want other people to believe in them. I have had a small one to run my own home; and besides that, I am the head of the organization that makes the greatest of all budgets, that of the United States government. Do you wonder then that at times I dream of balance sheets and sinking funds, and deficits and tax rates and all the rest?"

The Purpose of Tax Cuts

Speaking of tax rates, in December 1923, Coolidge and Treasury Secretary Andrew Mellon launched a campaign to lower top rates from the fifties to the twenties. Mellon believed, and informed Coolidge, that these cuts might result in additional revenue. This was referred to as "scientific taxation"—an early formulation of the Laffer Curve. And Coolidge passed the word on: "Experience does not show that the higher rate produces the larger revenue. Experience is all the other way," he said in a speech in early 1924. "When the surtax on incomes of $300,000 and over was but 10 percent, the revenue was about the same as it was at 65 percent."

Mellon and Coolidge did not win all they sought. The top rate of the final law was in the forties. But even this reduction yielded results—more money flowing into the Treasury—suggesting that "scientific taxation" worked. By 1926, Coolidge was able to sign legislation that brought the top marginal rate down to 25 percent, and to do so retroactively.

Today's Republicans tend to take pleasure when the Laffer Curve is vindicated and more money flows into government as a result of tax cuts. Indeed, this idea of "scientific taxation" is often used to attempt to get Democrats to go along with tax cuts, as if those cuts are an end in themselves. By contrast, the specter of increased federal revenue rendered Coolidge anxious, personally and politically—so much so that he considered *foregoing* the rate cuts: "While I am exceedingly interested in having tax reduction . . . it can only be brought about as a result of economy," he said at one point. He would not put tax cuts before budget reduction, insisting on twinning the two goals. To underscore the point, twin lion cubs given to Coolidge by the mayor of Johannesburg were named "Budget Bureau" and "Tax Reduction."

In short, Coolidge didn't favor tax cuts as a means to increase revenue or to buy off Democrats. He favored them because they took government, the people's servant, out of the way of the people. And this sense of government as servant extended to his own office. Senator Selden Spencer once took a walk with Coolidge around the White House grounds. To cheer the President up, Spencer pointed to the White House and asked playfully, "Who lives there?" "Nobody," Coolidge replied. "They just come and go."

This view of government and his attendant insistence on economy made Coolidge few friends in Washington—a fact illustrated by notes kept by White House usher Ike Hoover. These notes record the excuses given by lawmakers for not attending breakfasts hosted by Coolidge at the White House: "Senator Heflin: Regrets, sick. Senator Norris: Unable to Locate. Senator Pittman: Regrets, sick. Senator Reed, of Missouri: Regrets, sick friend." But as unpopular as he was in Washington, Coolidge proved enormously popular with voters. In 1924, the Progressive Party ran on a platform of government ownership of public power and a return to government ownership of railroads. Many thought the Progressive Party might split the Republican vote as it had in 1912, handing the presidency to the Democrats. As it happened, Progressive candidate Robert LaFollette indeed claimed more than 16 percent of the vote. Yet Coolidge won with an absolute majority, gaining more votes than the Progressive and the Democrat combined. And in 1928, when Coolidge decided not to run for reelection despite the urging of party leaders who looked on his reelection as a sure bet, Herbert Hoover successfully ran on a pledge to continue Coolidge's policies.

Unfortunately, Hoover didn't live up to his pledge. Critics often confuse Hoover's policies with Coolidge's and complain that the latter did not prevent the Great Depression. That is an argument I take up at length in my previous book, *The Forgotten Man*, and is a topic for another day. Here let me just say that the Great Depression was as great and as long in duration as it was because, as economist Benjamin Anderson put it, the government under both Hoover and Franklin Roosevelt, unlike under Coolidge, chose to "play God."

* * *

Beyond the inspiration of Coolidge's example of principle and consistency, what are the lessons of his story that are relevant to our current situation? One certainly has to do with the mechanism of budgeting: The Budget and Accounting Act of 1921 provided a means for Harding and Coolidge to control the budget and the nation's debt, and at the same time gave the people the ability to hold someone responsible. That law was gutted in the 1970s, when it became collateral damage in the anti-executive fervor following Watergate. The law that replaced it tilted budget authority back to Congress and has led to over-spending and lack of responsibility.

A second lesson concerns how we look at tax rates. When tax rates are set and judged according to how much revenue they bring in due to the Laffer Curve—which is how most of today's tax cutters present them, thereby agreeing with tax hikers that the goal of tax policy is to increase revenue—tax policy can become a mechanism to expand government. The goals of legitimate government—American freedom and prosperity—are left by the wayside. Thus the best case for lower taxes is the moral case—and as Coolidge well understood, a moral tax policy demands tough budgeting.

Finally, a lesson about politics. The popularity of Harding and Coolidge, and the success of their policies—especially Coolidge's—following a long period of Progressive ascendancy, should give today's conservatives hope. Coolidge in the 1920s, like Grover Cleveland in the previous century, distinguished government austerity from private-sector austerity, combined a policy of deficit cuts with one of tax cuts, and made a moral case for saying "no." A political leader who does the same today is likely to find an electorate more inclined to respond "yes" than he or she expects. ■