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## “The Greatest Story Never Told”: Today’s Economy in Perspective

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INSIDE  
THIS ISSUE >

**DICK ARMEY**

“Whatever Happened  
to the Contract with  
America?”

*The following is adapted from a speech delivered at Hillsdale College on January 29, 2008, during a seminar co-sponsored by the Center for Constructive Alternatives and the Ludwig von Mises Lecture Series.*

**There is** a debate going on today over whether our economy is in recession. Polls show sagging public confidence. But some perspective is sorely needed. The fact of the matter is that we in the United States, and to a lesser degree the entire world, have just lived through—and continue to live in—the greatest period of prosperity in human history. Over the last 25 years, more wealth has been created, more people have been lifted out of poverty, standards of living have been elevated more dramatically, and the quality and length of life have improved, more than ever before in recorded history. Unfortunately, as Larry Kudlow says, this is “the greatest story never told.” We need to start telling the story, and also to think about its causes.

First, let us focus on the United States (and I say this with full knowledge that the State of Michigan is a unique exception among the 50 states to America’s extraordinary recent prosperity; but the causes of Michigan’s peculiar problems are a topic for another day): Average economic growth in the U.S. has not only been positive for almost the entire last quarter century, but for much of this period the *rate* of growth has accelerated. Our nation’s total economic output in 1982 was \$5.1 trillion; last year

it was \$11.3 trillion (in real 2000 dollars). Per capita economic output in 1982 was \$22,400; last year it was \$37,807 (in real 2000 dollars). The average unemployment rate in the 1970s was nearly seven percent; it has been declining, on average, every decade since, and has remained below five percent since 2003. The service sector of our economy has been on fire, growing from \$1 trillion in 1982 to \$5.5 trillion in 2006. And do you know how far back one has to go to find the year when America's total manufacturing output peaked? All the way back to 2007! Yes, U.S. factories produced more last year than in any previous year in our history. That's the "hollowing out"—as its critics like to say—of America's economy.

This expanding economy has, of course, resulted in huge gains in wealth. The Dow Jones Industrial Average began the 1980s at 825; today, despite its recent declines, it remains above 12,000, a 1,400 percent increase. And with the democratization of the capital markets that has occurred through savings programs like IRAs and 401(k)s and investment vehicles like mutual funds, the average family's wealth has grown dramatically, too. In 1983, 19 percent of American households owned stocks; in 2005, 50 percent were investors. In 1989, the median family net worth was \$69,000; in 2004, it was \$93,000.

These gains in income and wealth have resulted directly in a better standard of living for virtually every segment of American society—including the poor. Among families living below the official

poverty line in the early 1970s, less than 40 percent had a car, almost none had color televisions, and air conditioning was virtually unheard of; in 2004, 46 percent owned their own homes, almost 75 percent owned a car (indeed, 30 percent owned two or more cars), 97 percent had color TVs, and 67 percent had air conditioning. The poor in the U.S. have an average of 721 square feet of living space per person, as compared with 430 in Sweden and 92 in Mexico.

Similarly, technology has become accessible to all sectors of society. There were 9.8 million cable TV subscribers in 1975, and 65 million in 2006; 2.1 million personal computers in 1985, and 243 million in 2007; 340 cell phone subscribers in 1985, and 243 million in 2007.

Health indicators track similarly. Infant mortality dropped from 20 deaths per 1,000 people in 1970 to seven deaths per 1,000 people in 2002. In 1980, American life expectancy was less than 74 years. Today it is 78.

Nor is America totally unique in this regard. While we have led the world in most measures of prosperity and growth, other countries have been enjoying the broadest expansion of wealth in history as well. A recent issue of *The Economist* documents the tremendous worldwide improvement in both the social conditions in poor countries and the alleviation of poverty: Between 1999 and 2004, some 135 million people emerged from destitution, and there are now twice as many countries with fast-growing economies as there were in 1980.

**Imprimis** (im-pri-mis),  
[Latin]: in the first place

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## Keys to Prosperity

This long period of sustained economic growth and the huge quality-of-life improvements it made possible didn't happen by accident. They were a result of a major expansion in economic freedom, initially in the U.S., then increasingly around the world. This expansion took many forms, but three of the most important were a dramatic reduction in marginal tax rates, a series of major deregulations, and a broad expansion of trade.

After decades of top marginal tax rates in percentiles from the 70s into the 90s, President Reagan signed the Economic Recovery Tax Act of 1981. The top marginal rate was reduced from 70 to 50 percent, and by the time Reagan left office, it was down to 28 percent.

During Reagan's two terms, the top corporate tax rate was reduced from 34 to 28 percent, individual tax brackets were indexed for inflation, and—although there were some tax increases—the devastatingly high top marginal tax rates that preceded Reagan were gone. Nor have they come back—at least not yet.

In subsequent years, President Bush the elder and President Clinton raised some taxes too much, but lowered others; and it didn't appear smart to anyone that we should return to the levels that had prevailed prior to Reagan. The current President Bush has lowered taxes dramatically—not so well in 2001, but then very effectively in 2003. The effect was to lower marginal tax rates, phase out the death tax, offer marriage penalty relief,

**CONTINUED ON PAGE 6**

# Whatever Happened to the Contract with America?

Dick Armey

Former Majority Leader, U.S. House of Representatives



**DICK ARMEY** is the chairman of FreedomWorks. He received his Ph.D. in economics from the University of Oklahoma and taught at the University of Montana, West Texas State University, Austin College, and the University of North Texas. Elected to Congress in 1984, he was the principal author of the Contract with America in 1994 and served as U.S. House Majority Leader from 1995-2003. Dr. Armey is the author of four books, including, most recently, *Armey's Axioms: 40 Hard-Earned Truths from Politics, Faith, and Life*.

*The following is adapted from a speech delivered at Hillsdale College on January 27, 2008.*

**Both the** creation of the Contract with America in 1994 and its subsequent abandonment can be explained in terms of the conflict in government between what I call legislative entrepreneurs and legislative bureaucrats. In 1994, when we wrote the Contract, entrepreneurs were strong. Today, as most of the time, bureaucrats are running things.

By legislative entrepreneur, I mean a person who has a set of principles and is willing to take risks on its behalf. A legislative bureaucrat, by contrast, seeks only to perpetuate the current situation with the motive of remaining safely in office. The fact that legislative bureaucrats are usually in command reminds me of Armey's Axiom Number One: "The market is rational. The government is dumb." I know the former to be true as someone who has studied economics. I know the latter to be true as someone who spent a long time in Congress.

One of the greatest entrepreneurial moments in the history of human government was the writing of our Constitution. America's Founders understood clearly what it means to accomplish a

goal on behalf of ideas and principles that rise above self-interest. George Washington might have become our king, but chose not to. His governing idea was that government is our servant because we are inherently free. It is an idea too many in government today forget.

In politics, every great enterprise eventually falls into the hands of what I call legislative bureaucrats. This explains the ongoing debate in Congress today over whether we even need to pay attention to the Constitution, and over whether the government's power should indeed be limited, as our Founders believed, to upholding liberty. It has fallen now to future legislative entrepreneurs on the conservative side of the aisle to revive that central concept of America.

There have been only three great moments of pro-Constitution entrepreneurship in my adult lifetime. The first of these was the presidential campaign of 1964, when Barry Goldwater tried courageously to remind the nation why our Founders thought it vital to limit

government. Needless to say, Goldwater suffered a landslide electoral defeat. But he galvanized the modern conservative movement, which rose from the ashes of his failed campaign.

The second great moment was Ronald Reagan's presidential campaign in 1980—this one wildly successful—which was run, like Goldwater's, on a consistently principled platform of limited government. Reagan's election inspired me and many other conservatives to run for office.

And the eight years following can largely be characterized as a struggle between constitutionalists who wished to restore limits on government and the always more numerous bureaucrats, both in the executive departments and in Congress.

Fortunately, for most of his presidency, Reagan and his allies prevailed. But when George H.W. Bush took office in 1989, riding Reagan's coat-tails, the bureaucrats began taking over again, and the Reagan Revolution had almost completely dissipated by the time Bill Clinton was elected in 1992.

The third great political moment in my lifetime was the Contract with America in 1994. In the run-up to the congressional elections that year, Hillary Clinton had been touting her government-run, command-and-control health care plan and scaring the devil out of the American people. The Republican leadership decided to capitalize on this terrible plan, seeking to seize power for the sake of implementing pro-Constitution policies. And the idea worked: Republicans took control of Congress that year

in dramatic fashion, largely due to the Contract with America.

Those of us who signed on to the Contract were devoted to rolling back government as much as we could. The biggest success of those years—and a superb example of legislative entrepreneurship—was welfare reform. President Clinton vetoed it twice, but we saw it through, and it has worked marvelously well. It became such a great success, in fact, that Clinton eventually claimed it as

the best idea he ever had! The lesson here for limited government conservatives is that they must not be afraid to dare.

Ever since the successes of the Contract with America, the balance in our government has moved slowly but surely from entrepreneurship back to bureaucracy. One day I found myself in a House leadership meeting, and I realized that we were coming to town each week and doing things we weren't supposed to be doing. We justified this by telling ourselves that we needed to hold

on to the majority in order to do the things we should be doing.

In the end, the Republican Congress—in the two or three years leading up to the Democratic victories in 2006—had utterly forsaken its commitment to liberty and limited government, with the often active acquiescence of the White House. This brings me to another one of Arme's Axioms: "If it's only about power, you lose."

The Republican majority, having forgotten the lessons of 1994 and having committed themselves only to the next election, not only failed their country but lost their power. ■

**George Washington  
might have  
become our king,  
but chose not to.  
His governing idea  
was that government  
is our servant  
because we are  
inherently free.  
It is an idea too  
many in government  
today forget.**

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## CONTINUED FROM PAGE 3

and lower taxes on capital gains and dividends.

Major deregulation was another part of the expansion of economic freedom that has enabled 25 years of strong growth. Interestingly enough, this deregulation began when President Carter signed the Airline Deregulation Act of 1978, lifting price and route controls that had forced higher prices and fewer choices on consumers. Without these controls, airlines could offer deals to fill otherwise half-empty planes and choose more efficient routes. The airline industry has obviously struggled for many reasons in subsequent years, but consumers have been the big winners in terms of increased safety, more choices, and lower prices. Deregulation is responsible for ten to 18 percent lower fares, saving travelers \$5-\$10 billion a year.

Following this, in 1980, Carter signed the Motor Carrier Act, deregulating an industry that had been closely controlled by the government since 1935. This put a stop to regulations dictating what products truckers could transport and

what routes they could travel. The kind of inefficiency that resulted from these regulations can best be understood by the following example: A motor carrier with authority to travel from Cleveland to Buffalo that purchased another carrier's right to go from Buffalo to Pittsburgh was required to ship goods from Cleveland to Pittsburgh via Buffalo, adding an unnecessary and wasteful 272 miles to the trip. As a result of easing these regulations, prices for truckload-size shipments fell 25 percent by 1982, and efficiency gains and cost savings helped to make possible the "just-in-time" inventory system that has transformed retailing, lowered consumer costs, and, arguably, diminished the economy's susceptibility to recessions.

President Reagan accelerated the trend toward less regulation, easing or eliminating price controls on oil and natural gas, cable television, long-distance telephone service, interstate bus service, and ocean shipping. In addition, banks were allowed to invest in a broader set of assets, and the scope of antitrust laws was reduced.

More recently, economic freedom has expanded in the form of freer international

trade. In 1993, NAFTA eliminated a majority of tariffs on products traded among the U.S., Canada, and Mexico, and phased out others. In 2004, CAFTA eliminated tariffs immediately on more than 80 percent of U.S. exports of consumer and industrial goods to Central America and phased out the rest over ten years. Since 1985, we've had bilateral or multilateral trade agreements with 16 countries. International trade is freer today than it has been at any time in the last 100 years.

## Why Turn Back?

This “greatest story never told” is indeed a tremendous story. It's the story of the fastest-growing period of prosperity—and the most dramatic mass elevation from poverty—in the history of the world. And it's all been possible because—bit by bit, in fits and starts, with advances and retreats—the U.S. and other countries have been moving toward greater economic freedom.

In light of this story—which, to repeat, is ongoing, so that you don't have to go back to medieval or classical times to find the evidence—it is utterly perplexing that so much of the election year rhetoric of late is aimed at reversing our economic course. For instance, it's hard to find a domestic policy that can be proven to be as successful as the Bush tax cuts—even by presumably Democratic standards. It's simply a matter of fact that these tax cuts shifted the tax burden substantially to higher income earners and took millions of lower income workers off the tax rolls altogether. The economy took off and ran for at least five years after implementation, and the federal deficit shrank dramatically after the tax cuts were enacted. Yet calls to reverse these tax cuts abound.

For the Democratic Party, of course, there are other reasons for rolling back economic

freedom. One is the powerful special interest groups within its coalition—organized labor in particular—which rely on government for special treatment and benefits they could never obtain in free and fair market-based negotiations. Unfortunately, the resulting higher costs and inefficiencies can devastate industries and regions—Michigan being a prime example.

But if we can expect Democrats to resist economic freedom, how do we explain the timidity on the Republican side to defend the economic ideas that have fueled recent advances in prosperity? The answer is that most politicians are ultimately motivated by their perceptions of public opinion. And despite the evidence, the public doesn't seem to realize the period of unprecedented progress we are in.

As a side note, the increasing lack of opposition among the American people to higher income taxes should not be surprising when an increasingly progressive tax code means ever fewer Americans are paying any taxes at all: In 2005, the top one percent of earners in the U.S. paid 39 percent of all income taxes, while the bottom 50 percent of earners paid just three percent. Over time, if half of the population believes that it is entitled to have someone else pay for government, we should not be surprised if public support for economic freedom continues to erode.

As one who has done a lot of campaigning over the years, I'll admit, it can be hard to explain to some audiences why they should have to buy their own health insurance when the other side is offering to have the government give it to them for free. But that doesn't absolve politicians of the moral obligation to present the principled and true argument. ■



### DID YOU KNOW?

Classicist and military historian Victor Davis Hanson, the Wayne and Marcia Buske Distinguished Fellow in History at Hillsdale College, has been named a 2008 recipient of a \$250,000 Bradley Prize, an award recognizing outstanding contributions to the preservation and defense of free government and private enterprise. This year's Bradley Prizes will be presented during a ceremony at the John F. Kennedy Center for the Performing Arts in Washington, D.C., on June 4.