Infant Industry:
The Past and Future of the American System

By John D. Mueller[1]

A single coherent tradition links all economically and politically successful American economic policy from George Washington through Abraham Lincoln, Franklin Delano Roosevelt, and Ronald Reagan. Tracing its origins and development will help us understand why the success of the American experiment at first critically depended—and depends now in a more literal sense—on promoting the nation's "infant industry."

The main tradition of American political economy can be distilled into four basic principles, all derived ultimately from applying updated scholastic economic theory to the unique conditions of economic development of the United States. The first, established under Washington's administration, is that the Federal government's policies to promote national defense, unity, and economic development[2] must be financed by taxation, not money creation. The second, established under Lincoln during the Civil War, is that the most efficient and popular way to raise the general revenues which pay for public goods like justice and national defense that benefit all classes of citizens equally is a broad-based, low-rate income tax, levied on both labor and property income. The third, first established under FDR, is that any quasi-public benefits more narrowly confined either to workers or property owners must be financed with dedicated taxes on labor or property income respectively, not general revenues. The fourth, associated with Reagan, is that the size and methods of government, particularly social benefits, must be limited to avoid both general unemployment and disinvestment in people or property.[3] Let's first consider the historical origins of these principles, and then their application to the biggest economic challenge facing America in coming decades: the demographic implosion that has begun to swallow most of Europe and Asia.

1. Washington and Hamilton's "American System"

American political economy cannot be understood without recognizing that its proponents have been obliged repeatedly to correct the deficiencies of the prevailing classical and neoclassical economic theories. Washington's Treasury Secretary, Alexander Hamilton, who had penned about two-thirds of the *Federalist* papers, was well aware that the significance of Adam Smith's *Wealth of Nations* lay not in anything Smith had *added* to economic theory, but rather in what he tried to *subtract* from it. Joseph Schumpeter was correct in stating that "the *Wealth of*

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Nations does not contain a single *analytic* idea, principle or method that was entirely new in 1776."[4] Economic theory had been taught for more than five centuries at the highest university level as an integral part of the scholastic natural law. According to this view, human dignity and rights are implanted by a transcendent Creator in a creature who is (in Aristotle's terms) at once a "rational," "matrimonial," and "political animal." As we have also seen, the corresponding economic theory integrated four basic elements at the personal, domestic, and political levels: Aristotle's theory of production; his theory of exchange; Augustine's theory of consumption; and a theory of distribution derived for individual persons from Augustine and for all communities from Aristotle. (Thus Schumpeter was incorrect in calling Aquinas' economic theory "strictly Aristotelian"[5] and in writing that Augustine "[n]ever went into economic problems."[6])

Like most of the Founders, Hamilton embraced this biblically orthodox version of natural law, which was summarized (for example) in Lutheran Samuel von Pufendorf's concise and widely read *Duty of Man and Citizen According to Natural Law*.[7] Writing in the first generation after the Peace of Westphalia ended Europe's religious wars in 1648, Pufendorf had embraced and renewed Augustine and Aquinas' argument that among citizens who disagree about divine revelation, only reasoning from common human experience—the natural law—can provide a workable basis for government.

But the natural law also contradicted Smith's pantheist Stoic philosophy, according to which the whole universe is supposed to behave like a single, uncreated rational animal, of which God is the immanent soul. In Smith's words, "every individual...intends only his own gain, and he is in this...led by an invisible hand to promote an end that was no part of his intention"[8]: the invisible hand serving as a kind of cosmic puppeteer, manipulating all humans by the heartstrings of their irrational sentiments. In his earlier *Theory of Moral Sentiments,* Smith had excised from personal economy Augustine's theory of personal distribution as well as his theory of utility; from domestic economy Aristotle and Augustine's theory of the marriage-centered household; and from both domestic and political economy Aristotle's theory of distributive justice. All were eliminated because they presume purposive human behavior. One perceptive former student accurately described Smith's project as a kind of moral Newtonianism: "a very ingenious attempt to account for the principal phenomena in the moral world from this one general principle ["sympathy"] like that of gravity in the natural world."[9] Smith's conception of humans as a-religious social "atoms" would have a decisive influence on the French Revolution's effort to eradicate all "mediating" social institutions, above all the Christian church and its clergy, as mortal threats to individual liberty. In contrast the American Founders, e.g. in James Madison's *Federalist* No. 10 proposed to foster their multiplication independent of national government, with the mostly positive mutual results described by Alexis de Tocqueville in *Democracy in America*.[10] At any rate, by eliminating the theories of consumption and final distribution, Smith had launched classical economics with only two of the four original elements: production and exchange. (Since later "neoclassical" economists would rediscover the theory of utility but not final distribution, as we have seen, modern economics now contains three of the four elements.)

Free trade in most (though not all) products has been in America's interest for the past century, and in my judgment will be for the foreseeable future. But it was not for America's first century, and Hamilton not only recognized the fact but also foresaw the change. Differing with Smith in metaphysics, moral philosophy, and economic theory, he also rejected Smith's pointed economic advice to the United States. Without much systematic discussion, Smith had argued that the goal of political economy is "to enrich both the people and the sovereign,"[11] but was inconsistent in applying this criterion. While excoriating Britain's policy of manufacturing protectionism, which dated from 1721 and provided many chief complaints in the Declaration of Independence, he strongly supported the Act of Navigation, which granted a monopoly to British shipping and sailors, on the ground that "defence...is of much more importance than opulence."[12] Yet his advice to America—first published while the two countries were at war—was essentially to reverse these priorities by subordinating America's national defense (thus independence) to the promise of current and future opulence (with continued dependence). Because of its abundant land and resources, he wrote, America must necessarily specialize in agricultural products to be traded freely for European (chiefly British) manufactured goods. "Were the Americans...to stop the importation of European manufactures," Smith predicted, "they would...obstruct, instead of promoting, the progress of their country towards real wealth and greatness."[13]

Similar arguments were frequently made by American Loyalists, e.g. Samuel Seabury (1729-1796), to whom Hamilton was responding in *The Farmer Refuted* (1775)[14] when he adumbrated the three main counterarguments to Smith of his own later *Report on Manufactures* (1791): national security, infant industry, and national union. First, "Not only the wealth, but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures."[15] Second, economic policy must also take into account the country's stage of economic development. Defense apart, free trade was in Hamilton's view ordinarily advantageous if a country had either no or a highly developed manufacturing capacity. But "[b]etween the recent establishments of one country and the long matured establishments of another country, a competition on equal terms...is in most cases impracticable...without the extraordinary aid and protection of government."[16] In such cases, Hamilton argued, protective manufacturing tariffs combined with domestic "bounties" (producer subsidies) "are productive, when rightly applied," and "particularly in the infancy of new enterprises indispensable."[17] Finally, "Mutual wants constitute one of the strongest links of political connection, and the extent of these bears a natural proportion to the diversity in the means of mutual supply."[18]

Based on this vision, Hamilton proposed and Washington won Congressional approval for tariffs on imported manufactures (at first a modest 5-10 percent), taxes on lawyers' licenses, luxury goods, snuff, and alcohol, while exempting the "means of subsistence, habitation, clothing, and defence": in effect, a crude sort of general tax on spending for goods and services with a generous exemption for "human maintenance." The Treasury thereby easily refinanced the large Continental and colonial debts at lower interest rates, and Hamilton arranged before leaving office to extinguish the remainder over thirty years. (However, the excise tax on alcohol triggered the so-called Whiskey Rebellion, which was suppressed in 1794 with a force of state militias under Washington's personal command.)

Washington's farewell address, also drafted by Hamilton, summarized his administration's foreign and domestic policies as corollaries of "the maxim, no less applicable to public than private affairs, that honesty is always the best policy."[19] The first economic policy corollary, which Washington and Hamilton had learned from bitter experience with the feckless Continental Congress and colonial governments, was that fiscal policy must provide the essential functions of national defense and internal justice through taxation, not creation of paper money. Like Hamilton in his first *Report on Public Credit* (1790),[20] Washington admonished his countrymen to cherish public credit as "a very important source of strength and security"; that "towards the payment of debts there must be Revenue; that to have Revenue there must be taxes; [and] that no taxes can be devised which are not more or less inconvenient and unpleasant." Reprising Hamilton's arguments for "infant industry" protection from the *Report on Manufactures*, Washington stressed the unifying purpose of the economic policy: through "unrestrained" internal commerce, "protected" by the "equal laws of a common government" and with "progressive improvements of interior communications, by land and water," the American Union would bind its sections in "an indissoluble community of interest as *one Nation*," with the North and East (rather than Britain) supplying manufactured goods and maritime security, in exchange for food and raw materials from the West and South.

Ironically (or perhaps fittingly), the chief authors or architects of the Declaration of Independence (Jefferson), the *Federalist* papers (Hamilton and Madison), and the Constitution (Madison), which was carefully designed to baffle political faction, became themselves leaders of the main factions in the emerging party system, as well as ancestors of the modern Democratic and Republican parties. The constitution, as Madison put it in *Federalist* No. 51, was based on a "policy of supplying, by opposite and rival interests, the defect of better motives."[21] By noting that "the most common and durable source of faction has been the verious [sic] and unequal distribution of property," and that "No man is allowed to be a judge in his own cause, because his interest would certainly bias his judgment and, not improbably, corrupt his integrity"[23] Madison was not merely restating Aristotle's analysis of faction and ideology from the *Politics*, but also combining it with Augustine's modifications about the asymmetry of human vices and virtues thanks to original sin, and extending both. After reciting the traditional Greek distinction between government by one, a few, or many rulers, and saying that each constitution may benefit everyone or only the ruling class, Aristotle had added, "the real criterion should be property," since "it is a matter of accident whether those in power be few or many, the one in oligarchies, the other in democracies. It just happens that way because everywhere the rich are few and the poor are many."[25] Each ruling faction, Aristotle said, has what we now call an ideology: a view of justice that may be partly but not absolutely true, because it is biased by omission in favor of that faction; in Hannah Arendt's lapidary phrase, a "fictitious world."[28] (As we saw in the section on Domestic Economy, Aristotle's own view of justice in the *Politics* was partly ideological; notably his argument that the master-slave relationship is "equally essential" to the household as those of husband-wife and parents-children.[29] This is a sobering reminder of how easily the most philosophically brilliant criticism of one's adversaries, without equally diligent and candid self-criticism, becomes ideological self-deception. As John the evangelist put it, if we say we are without sin we deceive ourselves, and the truth is not in us.[30])

Washington belonged to no party, but his administration's economic policies were clearly Federalist—the name adopted by Hamilton and his supporters. However, the details of Hamilton's plan for funding the debt, his success in gaining Washington's backing for both manufacturing tariffs and subsidies and the incorporation of a large national private bank, alienated Hamilton's former ally James Madison as well as Thomas Jefferson, who served as Washington's first Secretary of State. In 1794, Jefferson and Madison united two anti-Federalist groups, the "Democrats" and "Republicans," into the Democratic Republican Party, which elected Jefferson as President for two terms starting in 1800, to be followed by Madison for two starting in 1808, followed by James Monroe for another two in 1816, and finally John Quincy Adams for one term in 1824.

A new and more tumultuous electoral phase began in 1828, after most states abolished minimum-property requirements for voting, when war hero Andrew Jackson became the first president elected by near-universal (white) male suffrage, having denounced the "corrupt bargains" of the Democrat-Republicans and advocating what came to be called the "manifest destiny" to expand the United States across the continent as an agricultural "empire of freedom." Himself a cotton-growing frontier Tennessee slaveowner, Jackson faced down vice president John C. Calhoun over the South Carolinian's claim that any state might "nullify" Federal law with which it disagreed—specifically, the Federal tariff, but foreshadowing the main issues in the later Civil War.

Apart from the fact that Hamilton himself had died after a duel with Aaron Burr in 1804, another important reason for the Federalists' lack of electoral appeal in the first decades of the 19th century can be gathered from considering the structure of U.S. employment. As the table below shows, in 1790 nearly 80 per cent of American adults (and voters) were employed in agriculture and only about a tenth each in industry and services; but the industry share neared 20 per cent by 1860, with a larger, growing share in services. (For years in which data are not available, I have made linear interpolations, which are indicated in brackets.)

Structure of Employment in the United Kingdom and United States, 1700-1998		
United Kingdom		United States
1700: 56	Agriculture	1700: [100]
22	Industry	[0]
22	Services	[0]
1790: [41]	Agriculture	1790: [78]
[31]	Industry	[11]
[28]	Services	[11]
1820: 37	Agriculture	1820: 70
33	Industry	15

30	Services	15
1860: [27] [38] [35]	Agriculture Industry Services	1860: [54] [20] [26]
1890: 16 43 41	Agriculture Industry Services	1890: 38 24 38
2000: 2 26 72	Agriculture Industry Services	2000: 2 20 78
Source: Angus Maddison, *The World Economy: A Millennial Perspective*, 2001, Table 2-24, updated by national data; figures in brackets inter- or extrapolated.		

2. Lincoln's "Free Labor" Synthesis and Income Tax

Even anti-Federalists like Madison and Jefferson who had fiercely opposed Hamilton's program when first proposed, as well as their Democratic-Republican and Democratic successors, found themselves implementing manufacturing protectionism willy-nilly (and usually renewing the national bank) when in office, especially after the War of 1812. Northern and Southern politicians wound up debating, in effect, whether America's tariff wall should be head- or only breast-high (though average American manufacturing tariffs remained lower than Britain's until after 1830). And as we saw in recounting "A Brief Remedial History of Economics," John Stuart Mill admitted the validity of Hamilton's "infant industry" exception to free trade by including it in his 1848 revision of Adam Smith's classical economic theory.

The Washington-Hamilton economic program received a new political impetus in the 1820s, when Whig Senator Henry Clay codified it as the "American System" (in contrast to Adam Smith's "British system") of political economy. Lincoln summarized its main points in his first campaign speech in 1832: "My politics are short and sweet like the old woman's dance. I am in favor of a national bank. I am in favor of the internal improvement system and a high protective tariff."[31] The printed handbill of his remarks added "That every man may receive at least, a moderate education."[32] The Republican Party had formed in 1854 from a disparate coalition of pro-business Old Whigs and two other elements still discernible in the party at the start of the 21st Century: "Know-Nothings" who opposed more recent immigrants and their assimilation; and mostly Protestant Northern Christians—the issue ultimately split Northern from Southern Methodists, Baptists and Presbyterians—who favored abolition of slavery (and alcohol) on moral and religious grounds. The long period of national Republican dominance from 1860 to 1932 began after Lincoln (though refusing to pander to the Know-Nothings[33]) welded the Washington-Hamilton-Clay economic agenda to Thomas Jefferson's proposition that all men are created equal—which he deftly liberated from proslavery Democrats like Calhoun, who thundered, "All men are *not* created equal!"[34]—in a pro-Union, anti-slavery synthesis that Lincoln called "Free Labor."

Though ubiquitous in the ancient Roman Empire, "in most parts of Western Europe, slavery had more or less disappeared in the middle ages, though it was a peripheral part of Venetian trade with Byzantium and the Muslim world."[35] But it re-expanded sharply beginning in the mid-15th century after the re-conquests of European lands and sea-routes from the Muslims, who continued the practice: first in Portugal, then successively in Spain, France, Sweden, the Netherlands, and the United Kingdom as each new empire displaced the last through naval wars and mercantilism. In each case the decisive step was made by first justifying slavery of members of other religions, and finally also of co-religionists.[36] Yet in ending slavery too the motivation was primarily religious. The slave trade was abolished in the United Kingdom by peaceful means in 1807 after a dogged two-decade parliamentary struggle led by William Wilberforce (1759-1833), though slavery itself wasn't abolished until 1833, "with £20 million compensation to slave-owners and nothing to slaves."[37] This was a great political achievement; but the much greater practical difficulty of abolishing slavery in the United States compared with the United Kingdom by compensation rather than war may be gauged by two related facts: the relative sizes of the slave populations and their relative economic values in the two countries.

The first difference is that slaves comprised between nine and ten times as large a share of the American as the British population in 1750 and about six times as large in 1830: after starting at nil in 1619, 20.2 per cent of the American population in 1750 and 18.1 per cent in 1830 was black,[38] of whom more than nine-tenths were slaves.[39] Nearly all British slaves were held on Caribbean islands, where they comprised more than 80 per cent of the local population, but barely two per cent of the total U.K. population including slaves. Since slaves could vote in neither country, while the share of white voters was inversely proportional to the slave share of the total population, electoral resistance to the abolition of slavery would have been positively related to the slave share of the total population. This helps explain why slavery could finally be abolished by parliamentary means in Britain; why the first shots in the Civil War were fired in South Carolina (slaves were over half the total population); and also the vital importance of the question whether slavery would be permitted in former territories after they became new American states (since the new voting representatives could tip the balance of the slavery issue in Congress for the whole nation).

The second difference is related to the first: "By 1860, the economic value of property in slaves amounted to more than the sum of all the money invested in railroads, banks, and factories in the United States."[40] Assuming the profitability of slavery to have been about the same in both countries, the cost of both voluntary and compensated emancipation must have been at least six times as large a share of total wealth in the United States as in the United Kingdom. (Recent research has also suggested that because of economies of scale with gang labor, American slavery remained economically profitable and so was not on its way to disappearing spontaneously for economic reasons.[41])

Population of British Colonies and Former Colonies in the Americas *1750 and 1830 (000)*					
A. **North American Colonies and USA**					
Founded	State	1750 Total	% Black	1830 Total	% Black
1679	New Hampshire	27.5	2.0	269	0.4
1620	Massachusetts	188.0	2.2	610	1.1
1635	Connecticut	111.3	2.7	298	2.7
1644	Rhode Island	33.2	10.1	97	4.1
1664	New York	76.7	14.4	1919	2.3
1664	New Jersey	71.4	6.5	321	6.5
1681	Pennsylvania	119.7	2.4	1348	2.1
1704	Delaware	28.7	5.2	77	24.7
1632	Maryland	141.1	30.8	447	34.9
1607	Virginia	231	43.9	1221	42.6
1662	North Carolina	73.0	27.1	738	35.9
1662	South Carolina	64.0	60.4	581	55.6
1713	Georgia	5.2	19.2	517	42.6
	Total (13)	1170.8	**20.2**	8443	**19.2**
	Other states			4458	15.7
	Total			12901	**18.1**
B. 19 Caribbean Slave and Sugar Islands					
Founded	Island	1750 Total	% Slaves	1830 Total	% Slaves
1625	St. Kitts	21.8	88.3	23.4	81.6
1627	Barbados	63.4	78.9	102.2	80.3
1632	Antigua	31.1	89.3	37.0	80.0
1655	Jamaica	127.9	90.1	378.1	84.4
1763	Grenada	12.0	87.3	28.4	84.1
1797	Trinidad	0.3	42.4	42.1	54.1
1803	British Guiana	8.0	91.0	100.6	88.1
	12 Others	66.0	79.4	132.1	75.6
	Total (19)	371.2	85.3	843.7	81.2
Est. total UK population		13780	**2.3**	23640	**2.9**
Source: Angus Maddison, *The World Economy: A Millennial Perspective*, 2001 Based on Table 2-28, p. 105					

Like Hamilton, Lincoln differed with Adam Smith's economic theory, particularly its paradoxical inversion of capital over labor (resulting from Smith's erroneous "labor theory of value," which we considered in the chapter on classical economics) as well as Smith's elimination of marriage and family from the discussion of domestic economy. A century before economist Theodore W. Schultz rediscovered the scholastic theory of household production, Lincoln used a sophisticated "overlapping-generations model" of the family to describe American life. "There is, and probably always will be, a relation between labor and capital, producing mutual benefits," Lincoln said.[42] But except in South Carolina, he noted, the majority of "[m]en with their families—wives, sons and daughters—work for themselves, on their farms, in their houses and in their shops, taking the whole product to themselves, and asking no favors of capital on the one hand, nor of hired laborers or slaves on the other." According to Lincoln, this was a universal recipe for upward social mobility: "The prudent, penniless beginner in the world, labors for wages awhile, saves a surplus with which to buy tools or land for himself; then labors on his own account for another while, and at length hires another new beginner to help him."[43] It also represented almost the only retirement security on the frontier. As Allen Guelzo noted in *Abraham Lincoln: Redeemer President*, in Lincoln's day most westward migrants "were younger sons, seeking room for the farms that could no longer accommodate them" or "older farmers who had sold their lands in order to buy larger tracts at cheaper rates and thus provide for their own support in old age at the same time"[44]—a process which must end along with national settlement.

When the South seceded after Lincoln's election, the Republicans suddenly had a free hand in Congress to enact the remainder of the American System, including authorization for national banks, the Homestead Act, a transcontinental railroad, agricultural research colleges, and still higher tariffs. But the stark reality of funding the huge Civil War budget revealed at once that as the main source of general revenues, especially in wartime, the tariff tax base is simply too small and haphazard (since some kinds of income were taxed more than once and others not at all). The Republicans quickly did an about-face and enacted a relatively broad-based, low-rate income tax.[45] The fact that the tax was levied on income when received by producers rather than when spent by purchasers of their products (as with Hamilton's system of taxation) is essentially cosmetic; the basic principle Lincoln's administration had established is that when feasible, the most just and efficient way to pay for the current consumption of common goods and services (like justice and national defense) that benefit all citizens is to tax labor and property income as equally as possible, thus at the lowest possible marginal rates.

Britain had enacted the first income tax in 1798 (after Washington and Hamilton had left office) to prepare for England's war with Napoleon. But such a plan would have not have been feasible (even if constitutional) in the United States, because nearly 80 percent of workers were still employed in agriculture, mostly without regular money incomes. After seven decades of Hamiltonian economic development, however, the structure of U.S. employment in 1860 was apparently about the same as Britain's had been in 1700, when 56 percent worked in agriculture and 22 percent each in industry and services. Since the agricultural share of employment was much lower and those of industry and services commensurately higher in the Northern states, a much larger share of the Northern population worked for regular cash incomes. This enabled the Union, despite its suspension of the gold standard, to fund the war budget without the hyperinflation caused by massive issuance of inconvertible paper money in the more heavily agricultural South.[46] After the Civil War the Republicans repealed the income tax and returned American fiscal policy to reliance mainly on the tariff. But by the time the Census Bureau announced the closing of the frontier in 1890, the agricultural share of U.S. employment had fallen to 38 percent while industry had risen to 24 and services to 38 percent, feeding a growing bipartisan consensus that favored shifting the foundation of Federal finance from the tariff to the income tax, which occurred in 1913.

3. Roosevelt: Social Security and Free Trade

The lasting success of Roosevelt's New Deal from 1932 to 1980 stemmed partly from the fact that Theodore Roosevelt had splintered the Republican Party's national ticket in 1912 over the tariff-vs.-income tax issue, delivering the White House to Woodrow Wilson with a minority of the popular vote; and partly because many other Republicans, under the influence of faction, sought desperately to forget that Hamilton's strategy of promoting "infant industry" was inherently temporary and would become increasingly inappropriate as the United States surpassed Britain as the world's leading economic and military power. This became obvious by the First World War. It had taken about 140 years after the first British prime minister, Robert Walpole, announced the policy of aggressive manufacturing protectionism in 1721, until that country became pre-eminent and dropped its manufacturing tariffs below America's after 1830 and finally abolished them after 1860.[47] Yet after more than eight decades of similar American protectionism, President Ulysses Grant (1822-1885) complacently predicted merely that "within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade."[48] But Friedrich List (1789-1846), a German-American economist who had systematically analyzed the historical evidence supporting Hamilton's theory of economic development, had prophesied much more accurately in 1841 that the United States "will perhaps in the time of our grandchildren exalt itself to the rank of the first naval and commercial power in the world," and following the example of Britain, "[revert] to the principle of free trade and of unrestricted competition in the home as well as in foreign markets."[49]

However, the political success of Roosevelt's New Deal was rooted, more than anything else, in the fact that pay-as-you-go Social Security pensions went a long way toward solving the American family's "retirement problem," triggered by the combination of the frontier's closing, increasing importance of education, and the shift in employment from rural agriculture to urban industry. As the discussion of Lincoln above indicates, before Social Security there were basically two methods of providing for oneself in old age: income from previously acquired property, e.g. a farm or else gifts from one's adult children. But Lincoln correctly predicted in 1859 how education would change this: "The old general rule was that *educated* people did not perform manual labor. They managed to eat their bread, leaving the toil of producing it to the uneducated," he said. "But *now*, especially in these free States, nearly all are educated—quite too nearly all, to leave the labor of the uneducated, in any wise adequate to the support of the whole. It follows from this that henceforth educated people must labor."[50] However, Lincoln did not address what I have called the "retirement problem," which (as explained in an earlier chapter on domestic economy) arises from the fact that, for those younger than about forty, investing in education provides a substantially higher rate of return than investing in property (for example, the stock market); but unlike property income, the resulting labor income necessarily ceases upon retirement or death. The "retirement problem" is essentially how one can transfer this higher-yielding labor income into the retirement years without lowering one's lifetime income by investing less in education and more in property while young.

Pay-as-you-go Social Security helped solve the retirement problem by offering for the first time a third alternative. The system's *popularity* arises from the fact that it provides a form of retirement saving that private markets cannot.[51] The real assets behind Social Security pensions consist of the fraction of covered workers' "human capital" approximating the payroll tax rate dedicated to retirement pensions (currently about one-eighth). By pooling this share of their labor income to pay current retirees' benefits, employed workers are able to transfer its value to themselves after their own retirements and to their spouses and surviving dependents after their deaths, with an average rate of return exceeding on the government bond yield. (The Social Security "Trust Fund" contains no assets; it merely records the cumulative value of workers' payroll taxes diverted from funding current retirement benefits of workers and their dependents to the Federal government's general operations.) The system's *longevity*, however, is due to the feature insisted upon by Roosevelt's Treasury Secretary Henry Morgenthau for both Social Security and unemployment insurance: that all benefits be self-financing out of current payroll taxes, not general revenues. (Roosevelt's Social Security plan was specifically designed to pre-empt the earlier "Townsend plan," which would have funded retirement benefits from general revenues.)[52]

Roosevelt's administration, then, added the third general principle: that any government benefits confined to workers or property owners must be paid by taxes on the same class of citizens (though not necessarily the same individuals). As we'll see in the final chapter in this section, the reason is not fussy tidiness, but to prevent the results evident throughout Europe: a high unemployment rate, combined with a below-replacement birth rate.

Roosevelt did backtrack on the two earlier principles, however. First, he raised income tax rates as high as 94 percent, eliminating one of the main advantages of the income tax, first discovered under Lincoln: spreading the burden of general government operations as fairly and efficiently as possible. Second, though Roosevelt's administration deserves great credit for having begun planning reconstruction of the world financial order that had disintegrated under Republican management during the 1930s, the new Bretton Woods monetary system that replaced it in 1944 enshrined the U.S. dollar as the world's chief "reserve currency." This meant that, at first along with and then instead of gold, other nations' central banks increasingly purchased U.S. securities to back their currencies, like so many Federal Reserve Banks of Frankfurt, London, Tokyo, and Beijing. As we will see later on, every increase of foreign official dollar reserves necessarily entails an equal U.S. balance of payments deficit on private trade and capital combined, with the same inflationary effect in dollar terms—especially on food and energy prices—as if the Federal Reserve had expanded the U.S. money supply by purchasing the same securities.

The period of Democratic Party national dominance initiated by FDR in 1932 ended in 1980 after that party seemed to have steered about as far off course on both foreign and domestic policy as had the Republican Party before the Second World War. The trajectory had begun in the postwar apogee of bipartisan agreement on national defense, taxation and foreign policy, the administration of

John F. Kennedy. Kennedy had narrowly defeated incumbent Vice President Richard Nixon in 1960 (neither receiving a majority) after a campaign in which the candidates vied to appear tougher on pursuing the postwar "containment policy" toward the Soviet Union, increasing the defense budget, and reforming taxation to "get the country moving again." (A recession had begun in April, inconveniently timed for Nixon).[53] Upon election Kennedy proposed a business investment tax credit (paid for by removing other business preferences) with "a second set of proposals, aimed at thorough income tax reform" promised for the following year.[54] In January 1963 he proposed across-the-board income-tax rate reductions closely resembling the Republican tax-rate cuts of the 1920s.[55] After Kennedy's November 1963 assassination by a communist sympathizer, Vice President Lyndon Johnson was elected in a 1964 landslide, vowing to continue and extend Kennedy's policies. (In a televised address for Barry Goldwater during that campaign, Ronald Reagan proposed for Social Security "voluntary features that would permit a citizen who can do better on his own to be excused upon presentation of evidence that he had made provisions for the non-earning years"; also memorable was a Johnson television advertisement depicting a child uncertainly counting daisy petals followed by a male voice counting down to a nuclear explosion, and "Vote for President Johnson on November 3. The stakes are too high for you to stay home."[56])

Though the Republicans lost voters in the 1964 through 1980 elections, Democrats gained none on balance because most of those who switched identified themselves as Independents rather than Democrats. Many were southern Democrats embittered by bipartisan passage of the Civil Rights Act of 1964 (northern Democrats and Republicans voted overwhelmingly for and Southern Democrats—there were few Southern Republicans—overwhelmingly against), followed by the Voting Rights Act of 1965 and Johnson's executive order requiring "affirmative action" to achieve racial quotas in hiring by Federal contractors; most voted for segregationist Alabama governor George Wallace. Others were alienated by the party's increasing radicalism on family and sexual issues or the Great Society's abandonment of the New Deal's "maternalist"[57] and self-financing[58] principles. Still others protested either the escalating Vietnam War, or that the United States appeared to be losing it.[59] Johnson (as did Nixon after him) also pressured the Federal Reserve for inflationary monetary expansion, which led to the 1968-71 breakdown of the Bretton Woods monetary system, resulting in "stagflation": bouts of inflation led by food and energy prices, peaking in double digits, and onset of four recessions in little more than a decade.

4. Reagan's Attempt to Restore Balance

Ronald Reagan shared several advantages with Lincoln: a good temper, having belonged to a different political party (as a Democrat, Reagan had voted all four times for Roosevelt; Lincoln had been a staunch Whig), the fatal tendency of political opponents to underestimate his abilities, and a national situation that required those abilities.

Like Lincoln, Franklin Roosevelt, and Kennedy, Reagan embraced popular principles recently abandoned by the other party, appealing to a fundamental American tradition. In a February 1977 speech, apparently after rethinking his role in Goldwater's 1964 defeat and his own unsuccessful effort to unseat incumbent

President Gerald Ford the year before.[60] the former movie actor mapped out three policy areas in which he said both the party and country were in need of reform—national defense, economics, and social policy. The speech was also noteworthy for its pointedly even-handed comments on ideology: "If there is any ideological fanaticism in American political life, it is to be found among the enemies of freedom on the left or right -- those who would sacrifice principle to theory, those who worship only the god of political, social and economic abstractions, ignoring the realities of everyday life. They are not conservatives."[61]

Over the next two years, Reagan proceeded to work out a sophisticated and remarkably coherent agenda for reform in all three areas; remarkable because it combined contributions from advisers who often sharply disagreed. On macoeconomics, Reagan was persuaded by Rep. Jack Kemp (R-NY) to adopt what came to be called the "supply-side policy mix," newly advocated by Columbia University professor Robert A. Mundell, while on the budet and microeconomics he favored Milton Friedman. The result was a sharp departure from the postwar Keynesian approach. "The Keynesian model is a *short run* model of a *closed* economy, dominated by *pessimistic* expectations and *rigid* wages. This model is not relevant to modern economies," Mundell had written in 1971. As explained by *Wall Street Journal* editor Robert Bartley,

> To combat stagnation plus inflation, you needed two levers: tight money to curb inflation, and tax cuts to promote growth.... In a Keynesian world, of course, tight money would merely offset tax cuts; one would contract demand while the other expands it. The key was that supply-side tax cuts provided stimulus not by expanding aggregate demand—'putting money into people's pockets'—but by stimulating supply, by increasing incentives to work and invest.

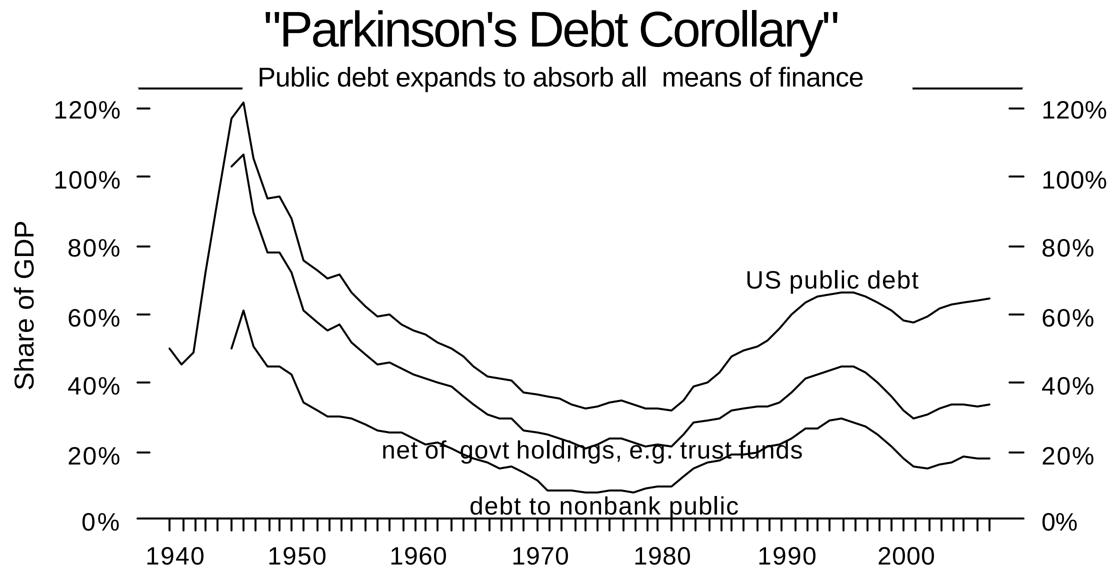
In his 1980 campaign, Reagan proposed to emulate the 1963 Kennedy tax-rate cuts (implemented in 1964-65), by lowering income tax rates across the board—that is, on both labor and property income—which he did in 1981 and 1986, on the latter occasion by eliminating most special-interest tax loopholes. He proposed simultaneously to increase military spending and counter Soviet initiatives in Latin America, Europe, Africa, and Asia, while curbing the growth of Federal domestic spending and social benefits to reduce the Federal deficit's drain on American national saving. "The press is trying to paint me as now trying to undo the New Deal," Reagan commented in his diary in January 1982, when his efforts to restrain domestic spending were under fiercest attack. "I remind them I voted for FDR four times. I'm trying to undo the 'Great Society.' It was LBJ's war on poverty that led us to our present mess."[62]

Reagan also led the 1983 bipartisan compromise to rebalance the pay-as-you-go Social Security retirement system; championed free trade to maintain America's economic dynamism in the face of both parties' clamors for protectionism; and staunchly supported Federal Reserve Chairman Paul Volcker's anti-inflationary monetary policy, despite the politically painful 1981-82 recession that followed. Reagan even considered restoring the dollar's gold convertibility, though a majority of members of the 1980 Congressional Gold Commission (chaired by Friedman's wife, economist Anna Schwartz) advised against it, after even the supply-side advisers who had pushed for it couldn't agree on the details[63]—leaving an unsolved problem that would return to harm the administrations of the next two Republican successors.

"When a conservative says it is bad for the government to spend more than it takes in, he is simply showing the same common sense that tells him to come in out if the rain," Ronald Reagan had remarked in his February 1977 address.[64] He was restating in common language the first principle of successful economic policy that went back to Washington and Hamilton. But after leaving office, Reagan assessed the result this way: "With the tax cuts of 1981 and Tax Reform Act of 1986, I'd accomplished a lot of what I'd come to Washington to do. But on the other side of the ledger, cutting Federal spending and balancing the budget, I was less successful than I wanted to be. This was one of my biggest disappointments as president. I just didn't deliver as much to the people as I'd promised."[65]

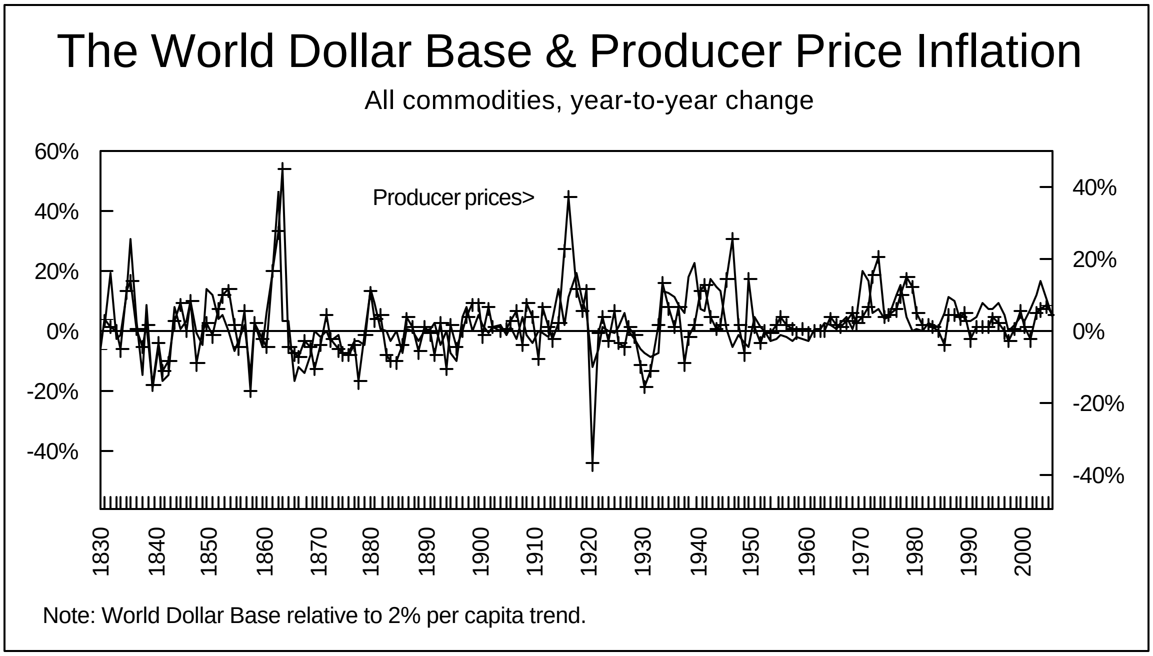
President Reagan's disappointment can be traced to the unintended consequences of Milton Friedman's Allowance Theory of Federal budgeting. "I have long favored cutting taxes at any time, in any manner, by as much as possible as the only way of bringing effective pressure on Congress to cut spending," Friedman explained. "Like every teenager, Congress will spend whatever revenue it receives plus as much more as it collectively believes it can get away with. Reducing spending requires cutting its allowance."[66] President Reagan borrowed Friedman's reasoning in a 1980 presidential campaign debate[67] and a 1982 budget speech:[68]

C. Northcote Parkinson famously theorized that "work expands so as to fill the time available for its completion." Though often misinterpreted as advice on time management, "Parkinson's Law" was the history professor's attempt to explain the inexorable growth of bureaucracy along the lines of the neoclassical libertarian theory of public choice.[69] Friedman's allowance analogy amounts to Parkinson's Fiscal Corollary: public spending expands to absorb all available tax revenues. But the strategy failed in practice by overlooking Parkinson's Debt Corollary: public borrowing expands to absorb all available means of finance. If tax revenues are Congress' "allowance," then purchases of Treasury securities by government trust funds and the banking system are its "credit cards." And the Congressional teenager's spending won't be fazed by a cut in allowance, unless the indulgent parents also cut up the credit cards. Those "credit cards" consist, first, of the government trust funds accumulated ostensibly as "reserves" for Social Security and other supposedly self-financing programs, and second, purchases of Treasury debt by the banking system, especially central banks, who use such debt as official monetary "reserves." Though we'll consider both in more detail in the last chapter of this section, a brief summary is necessary here.

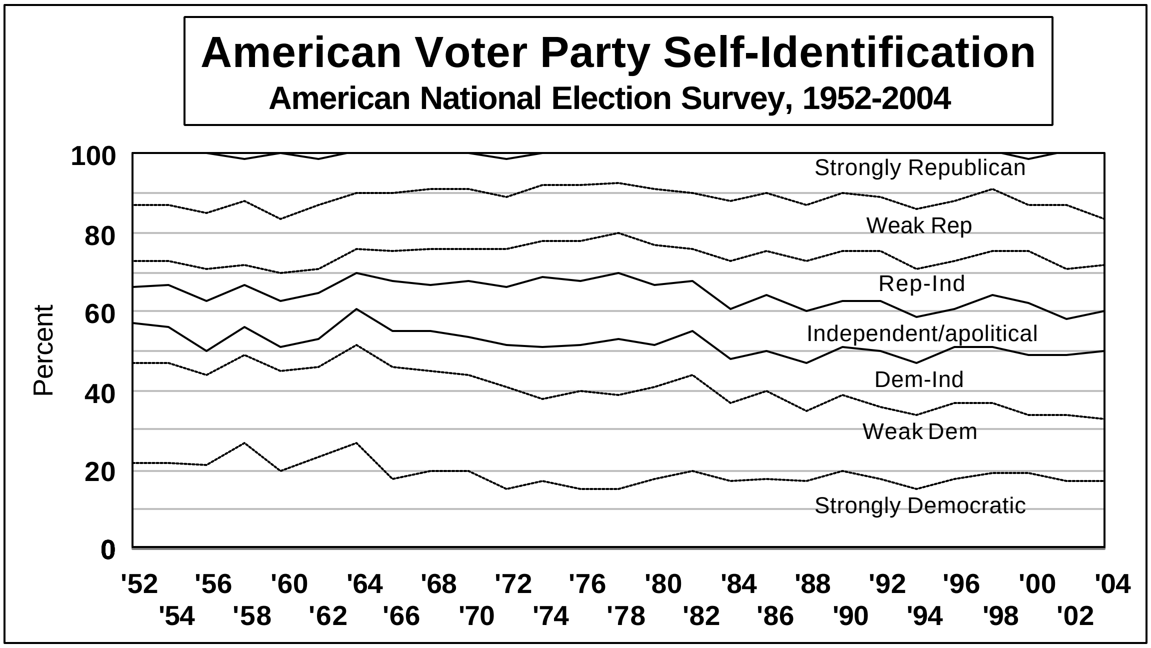


Since all Federal trust fund reserves and the bulk of both U.S. and foreign official dollar reserves are invested in U.S. Treasury securities, both arrangements not only automatically finance but also dramatically increase the average size of Federal deficits. The 1983 Greenspan Commission had focused solely on the prospective 75-year cumulative shortfall of the Social Security system, and most of its members were apparently unaware that their recommended tax and benefit changes would create a few decades of trust surpluses, followed by annual deficits extending endlessly beyond the 75-year limit. Rather than increasing national saving as commission Chairman Alan Greenspan apparently assumed, the initial Social Security surpluses had the opposite effect when an alliance of free-spending liberal Democrats and self-proclaimed "conservative, Reaganite" Republicans discovered that they could raise Federal spending and lower Federal revenues by exactly that amount, and competed to auction the fiscal goodies.[71] One enterprising lobbyist made a booming business of combining a "Ronald Reagan Legacy Project" (the stated purpose of which was "naming significant public landmarks after President Reagan") with simultaneous lobbying for new tax preferences that gutted the 1986 bipartisan tax reform that Reagan himself had described as one of his presidency's landmark achievements.[72] The same logic predicts what would happen in the event that a majority in Congress agreed to divert payroll taxes from funding current Social Security retirement pensions into tax-advantaged individual retirement accounts. Since most "owners" of the accounts would be prevented from withdrawing from them for decades, just like the "trust funds," the new accounts would be stuffed with the new Federal debt issued to finance them, financing yet more deficit spending.

The other Congressional "credit card"—official dollar reserves—approximates what my forecasting firm has called the "World Dollar Base," which had been a reliable predictor of commodity price inflation as far back as data exist. Each major expansion of the World Dollar Base has been followed by a commensurate increase in commodity prices; within a year while the dollar was freely convertible into gold, but up to 2-1/2 years later since the mid-1930s.

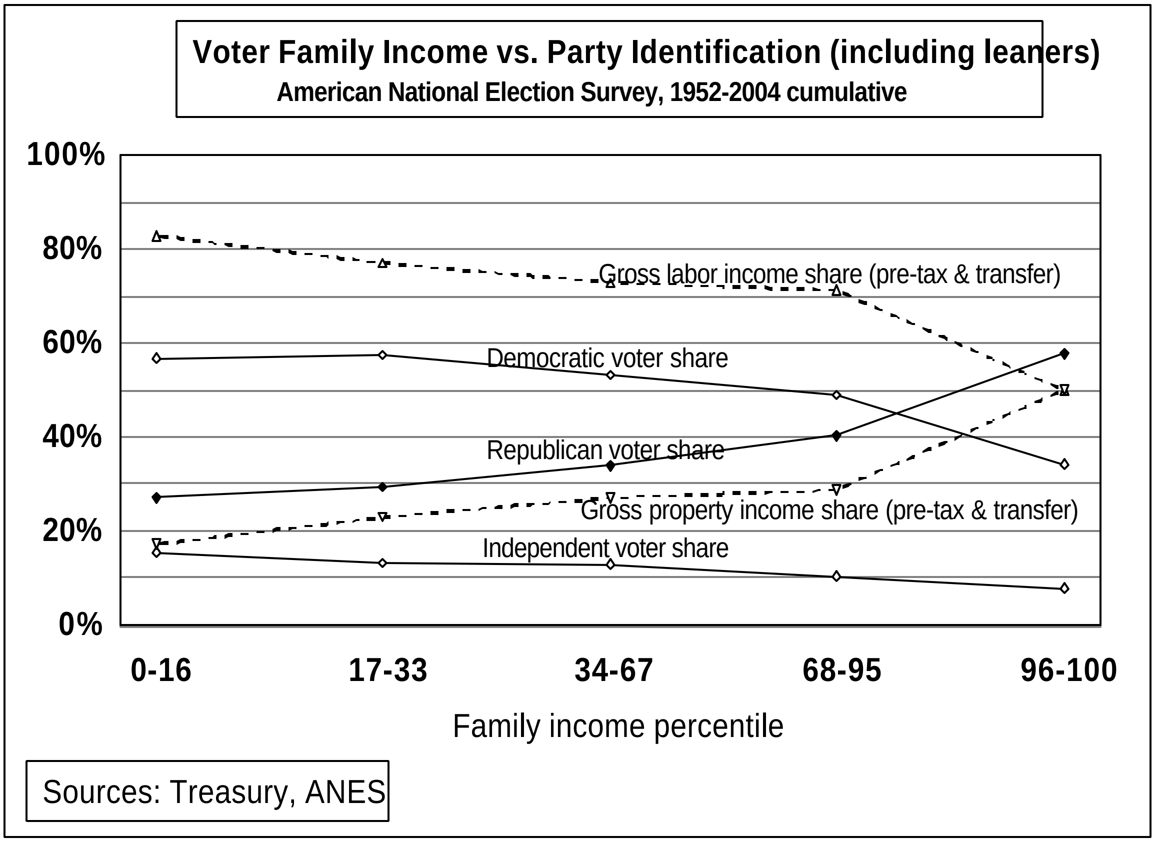


Thus the Hamiltonian first principle of government finance has routinely been violated under administrations of both parties. But the remarkable transformation of economics from the "winningest" Republican issue under Reagan to a losing one for all subsequent Republican presidential candidates can be traced, more than anything else, to the party's official abandonment of Reagan's income-tax and Social Security policies after deliberation by the 1995-96 National Commission on Economic Growth and Tax Reform. The new strategy, first proposed by Pete DuPont in his 1988 presidential campaign, was to shift the main source of Federal revenues from an income tax base comprising both labor and property income, to labor income alone; and replacing pay-as-you-go Social Security retirement pensions, designed to be self-financing out of payroll taxes, with financial accounts (claims on property income) subsidized by workers' payroll taxes (labor income) and general income-tax revenues (labor and property income). As we noted when discussing Domestic Economy as well as earlier in this chapter, the popularity of Social Security results mostly from the fact that pay-as-you-go retirement pensions offer an asset yielding a return approximating the rate of real economic growth, which is higher after adjustment for risk than the private market can produce. As we also noted in the concluding section on Domestic Economy, about four fifths of American families receive about four-fifths of their pre-tax, pre-transfer income from labor rather than property compensation. As a result, both proposals must adversely affect at least twice as many American families as could benefit—thus alienating the aptly named "Reagan Democrats," whose support had been critical to Reagan's electoral strategy and ultimate legislative successes.

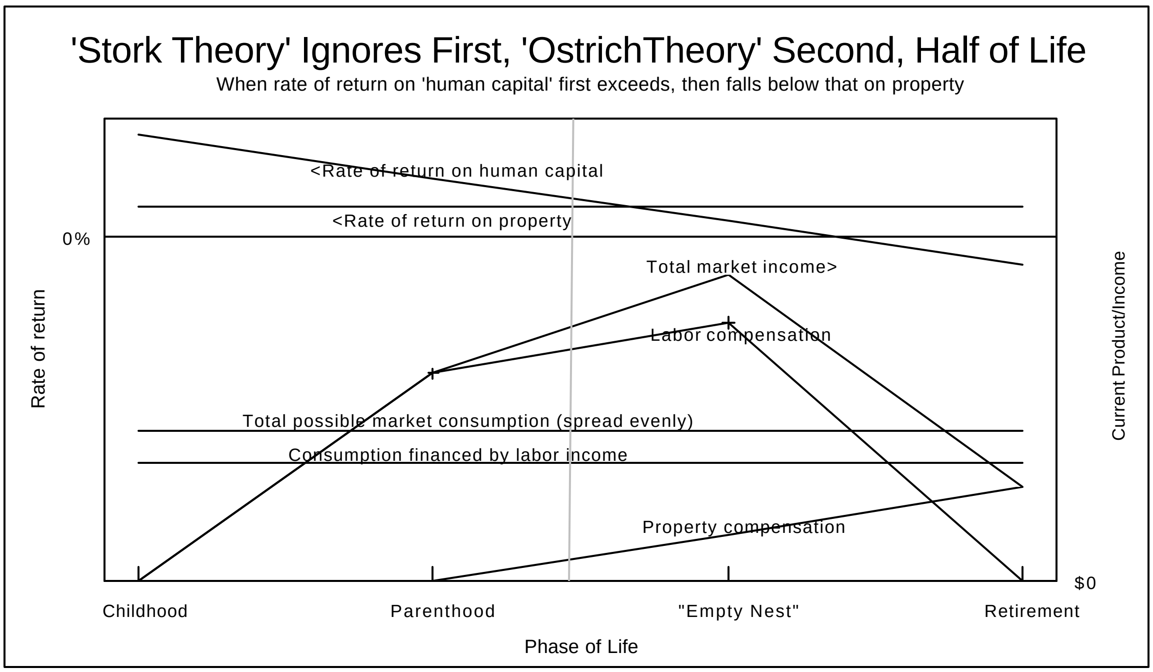


Implicit in this historical survey of American political economy is what might be called the "theory of American public choice." One of its key conclusions is that the biggest obstacles to reforms which are in the national interest remain those described by Hamilton and Madison in the *Federalist*—faction and ideology—and to repeat Madison's words, "the most common and durable source of faction has been the various and unequal distribution of property." Today, each party's dominant faction advocates breaking the basic economic policy rules for its own advantage, particularly in order to justify taxing the other party's dominant faction. Broadly speaking, the Democratic Party represents those who receive their income disproportionately as labor compensation (the return on "human capital") and the Republican Party those who receive their income disproportionately from property income. Without further qualification, this is admittedly an oversimplification, since everyone owns some human and almost everyone some nonhuman capital; but in relative terms it is far more accurate than the idea that the Republican Party favors the well-to-do and the Democratic Party represents the less well-off economically. The core economic interest groups that make up the Democratic Party include union members (especially public school teachers and other public employees), trial lawyers, most college professors, and those employed in the news media and entertainment industries. What these groups all have in common is not their income *level*—many are quite well-heeled—but rather the *source* of their income, which comes primarily from the value of their human services. The economic interest groups that make up the core of the Republican Party, meanwhile, include the direct or indirect owners of most businesses, large or small; the owners of residential property, whether owner-occupied or rental units; and those who hold most of the debt that finances business, government, and housing. Thus, a retired couple that lives mostly from a carefully husbanded portfolio of stocks and bonds and owns its own home may not be particularly well-to-do, but belongs to all three of the GOP's core groups and is therefore highly likely to vote

Republican. This same couple, however, also depends on its Social Security retirement pension and Medicare health insurance. These differences are reflected in the patterns of American national partisan voting.



The economic ideology dominant in my own Republican Party, which was held by only a small minority while Ronald Reagan was in office, is what I have termed the "Economic Stork Theory," because its basic assumption is that rather than resulting from prior investment, the population and its skills are "given"—merely assumed—as if brought from the blue by a large stork. The ideological counterpart to the Stork Theory in the Democratic Party is what might be called the "Ostrich Theory," the assumptions of which are approximately the reverse of the Stork Theory. Instead of assuming that the stock of human capital is given regardless of economic policy (so that only nonhuman capital responds to fiscal incentives), the Ostrich Theory assumes that the stock of nonhuman capital is given while the stock of human capital is not. At first I was inclined to call it the "Bare Hands" Theory, because it's essentially the same error that Adam Smith made in the *Wealth of Nations* by assuming that nonhuman capital can be produced by labor alone—as if the primitive hunter strangled game with his bare hands rather than a bow and arrows, or skinned it with his teeth instead of using so much as a flint knife. But "Ostrich Theory" seems more apt, not just for the sake of symmetry, but also because its adherents would indignantly protest that they aren't so foolish as to pretend that workers can produce anything without tools; they simply prefer to hide their heads in the sand rather than contemplate the consequences of this simple fact, or the necessary of the current fiscal policies they have supported and enacted. Each is an ideology—a "fictitious world," in Hannah Arendt's phrase—not because what is says is *false*, but rather systematically suppresses an equally important half of the truth. Analytically speaking, the Stork Theory resolutely ignores the first half of human life—the periods of dependent childhood and active parenthood, during which the prospective rate of return on human capital is higher than on nonhuman capital to focus on the second half, when the prospective rate of return on investment in property is higher than on human capital; while the "Ostrich Theory," equally systematically, focuses almost exclusively on the first while ignoring the second half of life: the "empty nest" and retirement phases, when the prospective rate of return on further investment in people falls progressively below that on investment in property.



The logical conclusion of the Republicans' Stork Theory is that any degree of taxation may be imposed on labor compensation (for example, by denying the same maintenance and depreciation deductions routinely allowed for investment in productive property) without adverse economic consequences, because *by assumption*, the workers would not be able to avoid such taxation (mostly by having fewer children). This is why Republican Stork Theorists incessantly advocate further cutting or even abolishing taxes only on dividends, interest, capital gains, the corporate income tax, and the estate tax, and expanding deductions or credits for property depreciation and tax-favored retirement saving; as a result of which, the income tax would be converted into a glorified (but very complicated) payroll tax.

The logical conclusion of the Democrats' Ostrich Theory, meanwhile, is that any degree of taxation may be imposed on property income—higher marginal tax rates on misnamed "unearned" (i.e., property) than labor income; steeply progressive marginal income tax rates (which affect a much larger share of property than labor income); double taxation of corporate dividends (corporate dividends are non-deductible when paid, but still taxed when received); steep taxes on estates and capital gains, etc.—all supposedly without adverse economic consequences, because all the economic value is assumed to be provided by workers and none by proprietors. Democratic Ostrich Theorists therefore advocate not only raising payroll tax rates instead of preventing the forecast mushrooming of Social Security, Medicare, Medicaid and other social benefits, but also shifting from funding social benefits to persons out of payroll taxes (i.e., taxes on labor income) to taxes on property income, the income tax (a tax on both property and labor income), or both.

Each of the Presidents we have considered—Washington, Lincoln, Franklin Roosevelt and Reagan—achieved economic and political success in establishing the principle with which he is associated here only by defeating partisan ideologues with an economic program that comprehended and transcended those of the prevailing factions in all parties, including their own. Though we have also noted the ways in which they may have fallen short on the other principles, in each case their overall economic and political success resulted from their having been the *least* ideological presidential candidates in those years. The most recent, and perhaps most pertinent, example was Ronald Reagan's 1980 and 1984 elections as president, which were due in large part to his successful unification of the core Republican interest groups with a strong appeal to the so-called "Reagan Democrats"—mostly middle-class families whose income depended primarily on labor compensation and who had increasingly felt themselves the victims of rising marginal tax rates instituted to finance the rapid growth of means-tested transfer payment programs. Reagan's promises to cut inflation, rein in transfer payments and discretionary spending, and cut marginal income tax rates across-the-board was an economic policy that appealed equally to retired coupon-clippers, businessmen, young school teachers, and unionized auto workers. President Bill Clinton achieved success on a more modest scale with his embrace of reforms of welfare and the earned income tax credit previously advocated by Republicans. But both he and his successor, George W. Bush, failed to achieve comprehensive reforms of either the income tax or social benefits or undid Reagan's reforms.

5. America's 'Infant Industry' in the 21st Century

The biggest economic question facing the United States at the start of the twenty-first century is whether it will maintain its long and hard-won global pre-eminence or follow the developed nations of Europe and Asia in committing demographic suicide. This view questions conventional wisdom among American demographers. For example, one American demographer whom I highly respect, Nicholas Eberstadt, has written that "U.S. demographic exceptionalism is not only here today; it will be here tomorrow, as well. It is by no means beyond the realm of the possible that America's demographic profile will look even more exceptional a generation hence than it does today. If the American moment passes, or U.S. power in other ways declines, it won't be because of demography."[80] This complacent view is based on current official projections, for example by the U.S. Bureau of the Census.

Actual and Projected Population and Relative Size, 1950-2050

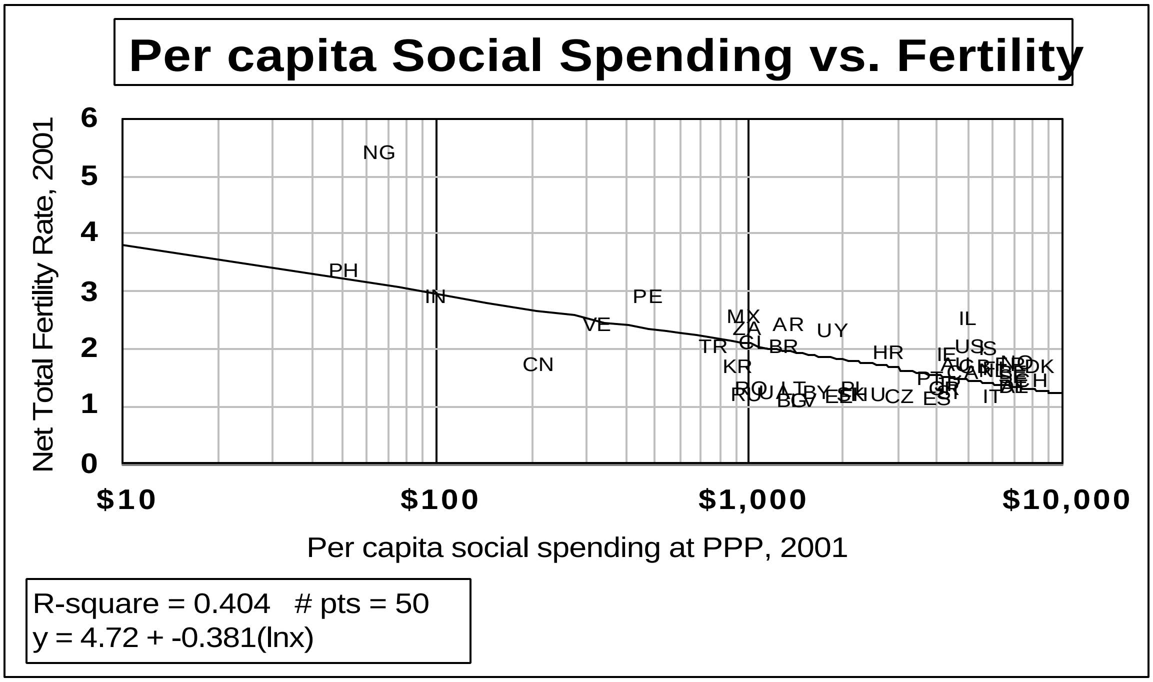
Year	U.S.	Russia	Japan	Germany	U.K.
		Population (millions)			
1950	152.3	101.9	83.8	68.4	50.1
2000	282.3	146.7	126.7	82.2	59.5
2050e	420.1	109.2	93.7	73.6	64.0
		Relative size (world rank)			
1950	3	4	5	7	9
2000	3	6	9	12	21
2050e	3	15	17	22	29
		Population growth (annual average %)			
1950-2000	1.2%	0.7%	0.8%	0.4%	0.3%
2000	0.9%	-0.4%	0.2%	0.3%	0.2%
2000-2050	0.8%	-0.6%	-0.6%	-0.2%	0.1%

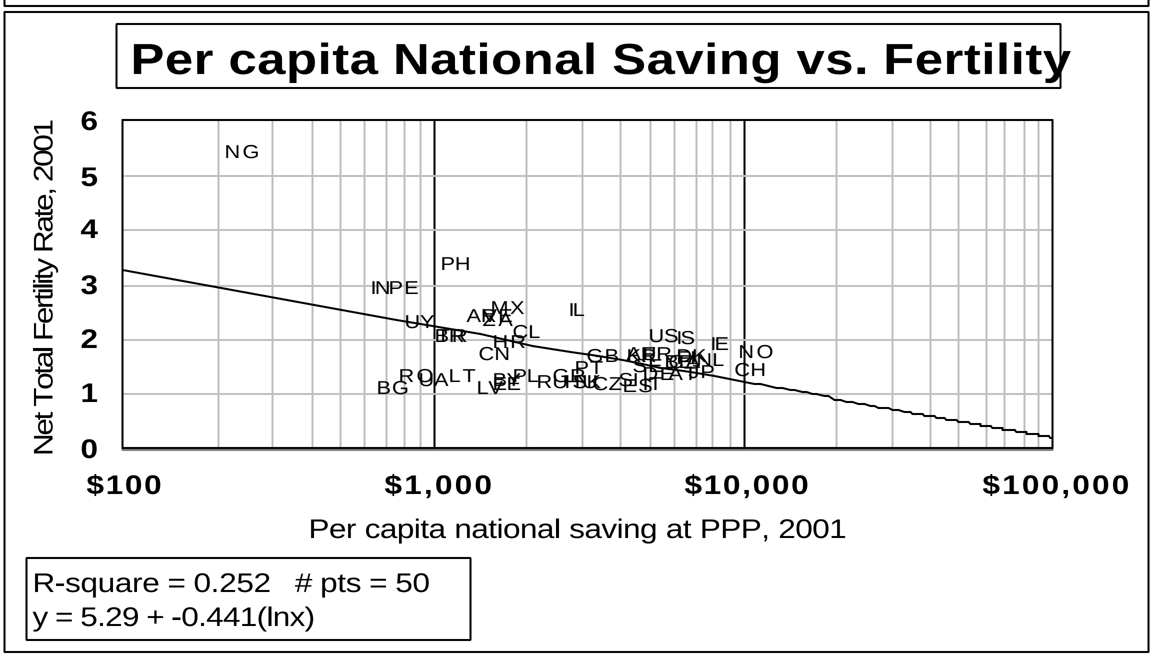
Source: U.S. Census Bureau, International Data Base[81]

However, the official forecasts for the United States rely simply on the assumption that the U.S. Total Fertility Rate will remain at or above the replacement rate of 2.1. Moreover, the existing neoclassical economic model of fertility, as we saw earlier in discussing Domestic Economy, makes inaccurate predictions because it omits a theory of distribution, and as a result at best gives contradictory answers on the effects of fiscal policy on fertility. The analysis in this book suggests instead that American "demographic exceptionalism" will soon end without substantial changes to American law and economic policy.

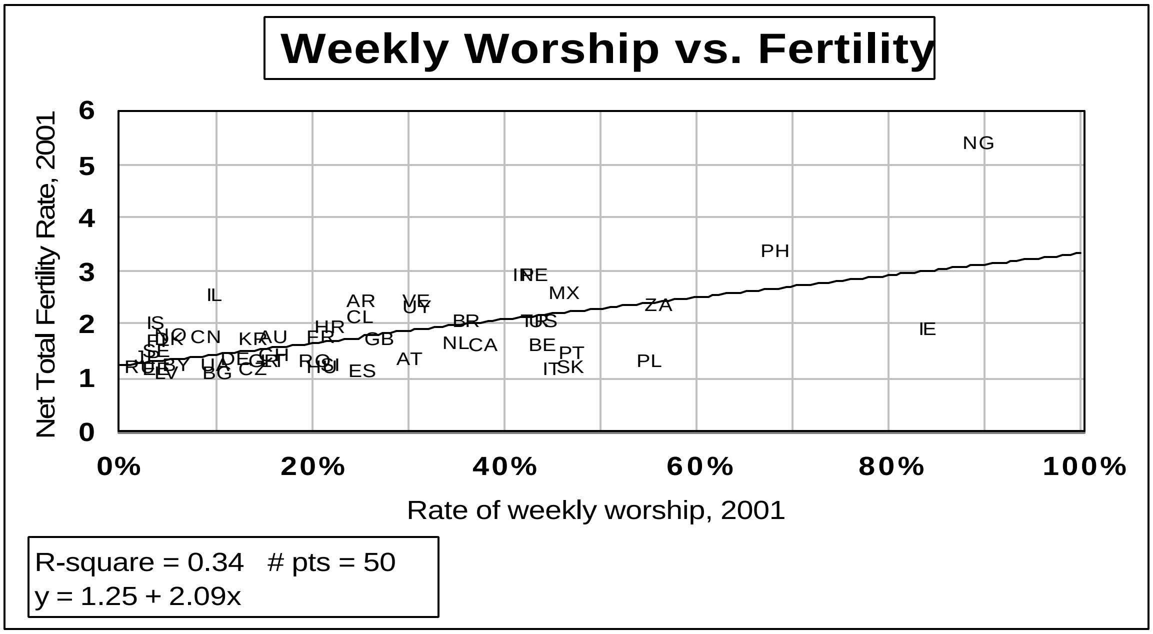
Like successful fiscal policy, the formula for demographic suicide is quite simple; in fact, it consists largely of flouting the basic principles we have considered. The first step is to legalize abortion (as Japan did in 1948, 25 years before the United States, aborting over 40 per cent of Japanese pregnancies by the late 1950s[82]; Europe now ends over half its known pregnancies by abortion, the United States about one-quarter, down from over 30 per cent.) Second, when foreigners line up at the borders to fill this demographic void, try to shut off immigration. Most immigrants are in their twenties, and the annual number of legal and illegal immigrants to the United States (about 1-1/2 million) is almost exactly equal to the annual number of abortions 20 to 25 years earlier. Third, when the fiscal system totters on its shrinking demographic base, raise the tax burden on couples of child-bearing age, thus preventing them from having children. This is what Europe has already done—and what both Democrats and Republican legislators now propose.

My research indicates that couples the world over have children for basically two reasons: because they love the children for their own sakes, or because they love themselves and expect some advantage from the children (or some combination).[83] This, we saw, is why just four factors explain most variation in birth rates among the 50 countries (comprising about two thirds of world population) for which data are available. The birth rate is strongly and about equally *inversely* proportional to per capita social benefits and per capita national saving, both of which measure the average adult's provision for his or her own current and future well-being. A history of totalitarian government further reduces the birth rate by about one child per couple after such economic variables are taken into account.

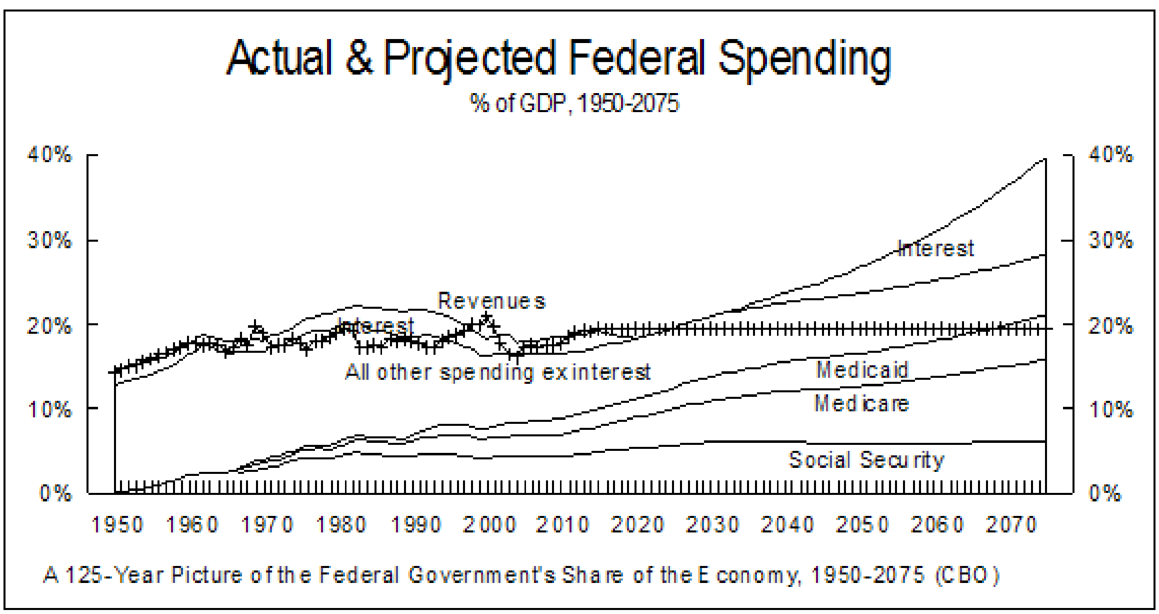




Finally, fertility is strongly and *positively* related to the rate of weekly worship; in other words, people's behavior regarding the Two Great Commandments, to love God and neighbor, is empirically linked: those who devote scarce resources like time and money to worship also devote such resources to children for the children's sake. The world over, weekly worshipers have about 2.1 more children per couple than those who don't worship, with relatively little variation by religion or denomination.



The factor most likely to depress the U.S. birth rate in coming decades is the projected doubling of social benefits (mostly Social Security, Medicare, and Medicaid) as a share of national income over the next 75 years, according to the U.S. Congressional Budget Office .[84]



Since the United States was almost exactly at the replacement birth rate of 2.1 children per family at the start of the 21st Century, the empirical relationships suggest that, with currently projected increases in absolute income and the prospective share absorbed by social benefits (Social Security and especially Medicare and Medicaid), the U.S. birth rate will decline over the next several decades from 2.1 to about 1.6, even if religious observance does not decline and the per capita savings rate does not increase.

However, since legal abortion has reduced American fertility since the early 1970s by an average of 0.6-0.7 children per couple, the United States could still avoid a declining population by ending legal abortion. Failing this, continued immigration at about 1-1/2 million a year will be nearly impossible to prevent.

The outline of a comprehensive, economically and politically possible solution is straightforward. It requires reforms of the Federal income and payroll taxes, social benefits, and monetary policy, most of which are desirable for reasons other than demography.

Income tax reform. First, as I suggested in 1995 as an economic adviser to the National Commission on Economic Growth and Tax Reform,[85] the income tax should be reformed to balance the annual cost of general government (that is, excluding social benefits) at the lowest possible tax rates on both labor and property income. I have joined in suggesting that this could be achieved if a single tax rate (estimated in my initial plan at 18 percent when paired with a Social Security payroll tax cut) would be imposed on all labor and property income, eliminating all deductions, exemptions and credits except a refundable credit, equal to the income and payroll tax rates on an amount based solely on family size that would exceed the poverty level for a family of four. For administrative simplicity the tax should be levied as part of the cost of goods and services purchased (including new investment property) rather than on the same income when received by workers and owners of productive property. This means the income tax would be collected only from several million businesses rather than more than 130 million households. That would also end the Alternative Minimum Tax and similar tax monstrosities. Estates would not need to be taxed separately as long as the tax rate was applied to all realized capital gains. As is the practice with most of our trading partners, to be consistent and avoid multiple taxation of the same income, the tax would be levied on imports and rebated on exports. If Republicans wanted to bribe workers to acquire financial assets (and thus become Republicans), they would have pay for such subsidies with dedicated taxes on property or property income—for example, by dedicated taxes on capital gains, estates or dividends, all of which many of my fellow Republicans want to abolish.

Reform of social benefits. Second, to prevent fertility from declining as in most of Europe and Asia, total social benefits must not be permitted to increase as a share of national income beyond the 2001 level. Each program must be balanced annually on a pay-as-you-go basis (thus eliminating both the current trust fund surpluses and expected deficits).

As Ronald Reagan correctly saw, Social Security's problems are not due to the program's pay-as-you-go *structure* but rather the prospective *size* of promised benefits. The program's main problems have always arisen from its *not* being kept on a pay-as-you-go basis. The dominant faction in each party seeks to "cure" this problem by actually increasing the current and prospective imbalances, even though such cross-subsidization is always politically unpopular as well as economically inefficient. Since about 1990, Social Security has been collecting about 25 per cent more from workers in payroll taxes than necessary to pay current retirement benefits. In other words, workers have been subsidizing from their labor income general government operations that ought to be paid for with an income tax on both labor and property income. Yet over the next couple of decades the situation is expected to reverse so that annual benefits will exceed annual payroll tax revenues by a similar proportion. Democrats have proposed to "solve" this problem by raising income and estate taxes, thus forcing property owners to pay for worker's benefits. As I will show in the last chapter in this section, this would necessarily raise the cost of hiring and the unemployment rate as in Europe. Meanwhile, Republicans want to divert the surplus payroll taxes from Social Security to subsidize property ownership through tax-advantaged financial accounts paid for with general revenues. By further reducing families' after-tax labor income, this could only reduce the birth rate as in Europe.

The simplest solution for Social Security (as also suggested in the 1995 proposal to the national tax reform commission) is to adapt former Republican actuary Robert Myers' suggestion, by cutting payroll taxes immediately about 25 percent, thus returning the current trust fund surplus to American working families, to invest without restriction in raising and educating their children or in corporate stocks and bonds, depending on their family situation. Prospective deficits would be removed at the same time by phasing in a reduction of equal proportion in promised benefits, prorated for the number of years the workers received the payroll tax cuts. (Increasing the retirement age would have a similar effect on the budget but disproportionately penalize those with lower incomes, which are linked to shorter longevity[86].) New imbalances would then be prevented by automatically adjusting the benefits in inverse proportion to the birth rate and average life expectancy.[87]

At the same time, *Medicare* and *Medicaid* would be reformed by linking each program's benefits to prior payroll contributions and by maintaining overall annual balance in the same way as for Social Security. Rather than allowing current spending per recipient to drive the programs' shares of national income, the calculation must be reversed, by starting with the current total shares of social benefits in national income and dividing by the number of eligible beneficiaries.

Monetary reform. Finally, to end the repeated episodes of commodity-price inflation, the chronic Federal budget and U.S. balance of payments deficits, the Federal government must negotiate an end to the dollar's official role as a reserve currency.

As with the Washington administration's first efforts to establish it, America's continued global pre-eminence depends on using economic policy to promote its "infant industry." In 1950, the United States was the third most populous country in the world after China and India, but with the largest economy. Today it's still third in population behind those same countries, and still has the largest economy. However, it's now expected that in fifty years the U.S., while still third in population (but behind India and China rather than vice versa), will be slipping rapidly in both relative population and economic size.[88]

"At what point, then, is the approach of danger to be expected?" Abraham Lincoln asked in 1838. "I answer, if it ever reach us it must spring up amongst us. It cannot come from abroad. If destruction be our lot, we must ourselves be its author and finisher. As a nation of freemen, we must live through all time, or die by suicide."[89] The developed nations of Europe and Asia have adopted demographically suicidal policies, and currently projected fiscal policies are likely to lead to a similar result in the United States. Yet there is still time for the United States to avoid that fate, by renewing the basic principles of American political economy to protect its “infant industry.”

The Four Principles of Successful (and Popular) Economic Policy

1. Current peacetime consumption of goods and services should be funded by current taxation, not money creation, with borrowing to fund only government-owned investments of equal or lesser duration (Washington/Hamilton)
2. Current consumption of public goods, e.g. defense, administration of justice should be funded by taxing labor and property income equally (Lincoln)
3. More narrowly targeted ‘quasi-public’ goods require dedicated funding (FDR):
   a. Personal transfer payments, e.g. Social Security, Medicare, and Medicaid should be financed by payroll taxes, not income or property taxes
   b. Subsidies to property owners, e.g. product subsidies, tax-free savings should be financed by taxes on property income, not payroll or income taxes
4. Government’s size and methods must be limited to prevent either general unemployment or disinvestment in people or property (Reagan)

How Each Party’s Dominant Faction Violates the Four Principles

1. Each relies on government deficit spending for current consumption,
2. financed by money creation (especially foreign dollar reserves):

causing chronic episodes of commodity-led inflation, Federal budget and international trade deficits.

3. Each diverts payroll-tax surpluses (labor income) to fund public goods, instead of using income taxes (on both labor and property income): Democrats to increase spending, Republicans to give tax loopholes, for favored constituents.
4. Republicans seek to shift burden of general government from all to only labor income; Democrats to subsidize personal social benefits (e.g. Social Security, welfare, Medicare) with income tax and/or taxes on property income.

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[2] Virtue ranked in between, but under the Constitution was effectively left to the states.

[3] To put all the prose into the mathematical terms of “neoscholastic” economic theory, the government’s budget may be written:

$C_G + \Delta K_G + T_L + T_K = t(w\Sigma L_i + r\Sigma K_i) + pw\Sigma L_i + kr\Sigma K_i + \Delta B_G + \Sigma K_{GMi}$,

where C_G is current consumption (including capital consumption) of government-owned goods and services, T_L is government transfer payments to persons, T_K is government subsidies to property-owners, t is the income tax rate (assumed to be equal for labor and property income), *p* is the payroll tax rate, *k* is the tax rate levied only on property income, B_G is government debt, and $\Sigma\Delta K_{GMi}$ is the issue of government fiat money. As explained in more detail in the next two chapters, the four basic policy principles described in the text amount to pairing and restricting the sources and uses of government finance in this way:

(1) $\Sigma\Delta K_{GMi} = 0$ [no government fiat money finance];
(2) $\Sigma C_{Gi} = t(w\Sigma L_i + r\Sigma K_i)$ [current consumption of public goods financed by income tax];
(3) $\Sigma T_{Li} = pw\Sigma L_i$ and $\Sigma T_{Ki} = kr\Sigma K_i$ [social benefits financed by current payroll taxes, and subsidies for property ownership from taxes on current property income];
(4) $\Sigma T_{Li} / w\Sigma L_i = (\Sigma T_{Li} / w\Sigma L_i)_{t=2001}$ [social benefits not to exceed 2001 share of labor income].

[4] Joseph Schumpeter, *History of Economic Analysis*, Oxford University Press, New York, 1954, 184.

[5] Schumpeter, *History*, 93.

[6] Schumpeter, *History*, 72.

[7] Samuel Pufendorf, *On the Duty of Man and Citizen According to Natural Law*, translated by Michael Silverthorne, edited by James Tully, Cambridge University Press, 1991.

[8] Adam Smith, *Wealth of Nations* Book IV Ch. 2.

[9] Adam Smith, *The Theory of Moral Sentiments* I.i.3.4, Oxford University Press, edited by D.D. Raphael and A.L. Macfie, 1976 (1759), Editors' Introduction, 3.

[10] For Smith's inspiration of the French Revolution's effort to abolish all mediating institutions see Thomas C. Kohler, "The Notion of Solidarity and the Secret History of American Labor Law," April 1, 2006, Boston College Law School, Boston College Law School Faculty Papers, Paper 137, 10-26, available at http://lsr.nellco.org/bc/bclsfp/papers/137, last accessed 11 July 2007; also published in *53 Buffalo Law Review 3*: 883-924 (2005): Alexis de Tocqueville, *Democracy in America1: 300-314*, Phillips Bradley, ed., Random House, New York,1990.

[11] *Wealth of Nations*, Book IV, Introduction.

[12] "The act of navigation is not favourable to foreign commerce, or to the growth of that opulence which can arise from it.... By diminishing the number of sellers, therefore, we necessarily diminish that of buyers, and are thus likely not only to buy foreign goods dearer, but to sell our own cheaper, than if there was a more perfect freedom of trade. As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England." *Wealth of Nations*, Book IV, Ch. 2.

[13] *Wealth of Nations*, Book II, Ch. 5.

[14] *1 Works of Alexander Hamilton*, ed. Henry Cabot Lodge, Federal Edition, New York, G.P. Putnam's Sons, 1904, at http://oll.libertyfund.org/Home3/Book.php?recordID=0249.01.

[15] 4 *Works of Alexander Hamilton*, op. cit., available at http://oll.libertyfund.org/Home3/HTML-voice.php?recordID=0249.04; accessed 19 April 2007.

[16] Ibid.

[17] Ibid.

[18] Ibid.

[19] *George Washington: A Collection, compiled and edited by W.B. Allen (Indianapolis: Liberty Fund, 1988), available at* http://oll.libertyfund.org/Home3/Book.php?recordID=0440.

[20] *2 Works of Alexander Hamilton*, op. cit., available at http://oll.libertyfund.org/Home3/Book.php?recordID=0249.02.

[21] James Madison, Federalist No. 51, op. cit., 269.

[23] James Madison, Federalist No. 10, op. cit., 44.

[25] Book 3, Ch. 8; Aristotle, *The Politics*, translated with an introduction by T.A. Sinclair, Penguin Books, 1962, 117-119.

[28] Book 3, Ch.9. "We make bad mistakes if we neglect this 'for whom' when we are deciding what is just. The reason is that we are making decisions about ourselves, and people are generally bad judges where their own interests are involved. So, as justice means just for certain persons and also just in relation to certain things (a distinction pointed out in my *Ethics*), these people, while agreeing as to the equality of the thing disagree about the persons for whom; and this chiefly for the reason already stated of judging from their own case, and therefore judging badly." Ibid, 118; Hannah Arendt, *The Origins of Totalitarianism*, rev. ed., Harcourt, New York, 1973, 364; 1st ed. Harcourt, New York, 1951; rev. and enlarged ed., Meridian, New York, 1958.

[29] *Politics*, Book 1, Ch. 2, op. cit., 26.

[30] 1 John 1:8.

[31] William Henry Herndon, *Life of Lincoln*, edited by Paul Angle, Da Capo Press, New York, 1983 [1889].

[32] 1 *Collected Works of Abraham Lincoln*, Roy P. Basler, ed., New Brunswick, N.J.: Rutgers University Press, 1953.

[33] In a letter to Joshua Speed, a close friend with whom he argued about slavery, Lincoln wrote, "I am not a Know-Nothing. That is certain. How could I be? How can any one who abhors the oppression of negroes, be in favor or degrading classes of white people? Our progress in degeneracy appears to me to be pretty rapid. As a nation, we began by declaring that '*all men are created equal*.' We now practically read it 'all men are created equal, *except negroes*.' When the

Know-Nothings get control, it will read 'all men are created equal, except negroes, and *foreigners, and Catholics.'* When it comes to this I should prefer emigrating to some country where they make no pretence of loving liberty -- to Russia, for instance, where despotism can be taken pure, and without the base alloy of hypocracy [sic]." 2 *The Collected Works of Abraham Lincoln 323,* Roy P. Basler, ed., "Letter to Joshua F. Speed" (August 24, 1855).

[34] *Congressional Globe,* 30th Cong., 1st sess., June 27, 1848, p. 876. "Calhoun insisted that 'Men are not created; there were but two created, one man and one woman" and the latter 'was inferior to the man' like infants are neither free nor equal but always subject to their parents.' Calhoun thus dismissed the Declaration's claim of liberty and equality as a 'hypothetical truism' that was not true or necessary to secure Independence." Charles A. Kromkowski, "The Declaration of Independence, Congress, and Presidents of the United States: As Circumstances Have Permitted, 1776-1976," in *The Declaration of Independence,* Gerber ed., CQ Press, 2002; available at people.virginia.edu/~cak5u/DeclarationofIndependencePaper1.doc.

[35] Angus Maddison, *The World Economy: A Millennial Perspective*, Organization for Economic Co-Operation and Development, 2001, 57. Maddison provides a summaryoverview of the origins, development, and economic consequences of modern slavery.

[36] Various popes were called in to settle Portugal's and Spain's many territorial and commercial disputes, and one papal bull issued in Portugal's favor in 1455 was construed as justifying conquest and slavery of non-Christians, a Portuguese monopoly on African slave trade (licenses for which were later sold to Spain), and by those nations (though apparently not the pope) as extending also to the Western Hemisphere. Maddison, *The World Economy*, 58, and Frances Gardiner Davenport and Charles Oscar Paullin, eds., *European Treaties Bearing on the United States and its Dependencies*, Carnegie Institution of Washington, 1917, viewable at http://books.google.com/books?id=uLILAAAAIAAJ. After slavery was introduced in the American colonies, "some planters withheld Christian instruction from Africans in the belief that their conversion might require their emancipation. Such fears were put to rest during the last third of the seventeenth century, however, when one colony after another passed laws making it clear that 'the conferring of baptisme doth not alter the condition of the person as to his bondage or ffredome': in other words, Christians could be held as slaves." Peter Kolchin, *American Slavery: 1619-1877*, Hill and Wang, New York, 1993, 15.

[37] Maddison, *The World Economy*, 106.

[38] Maddison, *The World Economy*, Table 2-24, 95.

[39] Campbell Gibson and Kay Jung, Historical Census Statistics on Population Totals By Race, 1790 to 1990, and By Hispanic Origin, 1970 to 1990, For The United States, Regions, Divisions, and States, Working Paper Series No. 56, U.S. Census Bureau, September 2002, available at http://www.census.gov/population/www/documentation/twps0056.html.

[40] Eric Foner, *Forever Free: The Story of Emancipation and Reconstruction*, Knopf, 2005.

[41] For a useful brief survey of the long debate over the economics of slavery, see Leonard Carlson, "Review of Robert William Fogel *The Slavery Debates, 1952-1990: A Retrospective*," Economic History Services, Feb. 6, 2006, http://eh.net/bookreviews/library/1043.shtml, accessed 14 November 2006.

[42] 5 Collected Works of Abraham Lincoln 51-53. Part of the closing remarks to Congress was drawn from Lincoln's 1859 speech to the Wisconsin State Agricultural Society, cited below.

[43] Ibid.

[44] Allen Guelzo, *Abraham Lincoln: Redeemer President*, Wm. B. Eerdmans, Grand Rapids, 1999, 40.

[45] The Revenue Act of 1861, enacted August 5, 1861, levied a tax of 3% on all labor and property incomes above $800 (5% on individuals living outside the United States). The revenue acts of 1862 and 1864 raised the top tax rates to 5%, then 10%, with a surtax of 5% on incomes above $600. The income tax was repealed in 1872. Chief architect of both income tax and tariff laws during the Civil War was Justin Morrill, R-VT, chairman of the House Ways and Means Committee. A description of Union and Confederate fiscal policies may be found at http://www.tax.org/Museum/1861-1865.htm, last accessed July 10, 2007.

[46] Obviously, the reasons for the Union's victory and Confederacy's defeat go far beyond their different economic policies. For an introduction to this broader debate, see Richard E. Beringer,

Herman Hattaway, Archer Jones, and William N. Still Jr., *Why the South Lost the Civil War*, University of Georgia Press, 1986.

47 The history of the major industrial nations' development strategies was recounted by Friedrich List in *The National System of Political Economy,* first published 1841 but first translated by Sampson S. Lloyd, 1885, published by Longmans, Green, and Co. London. 1909, available at http://www.econlib.org/library/YPDBooks/List/lstNPE.html; and surveyed more recently by Paul Bairoch, *Economics and World History: Myths and Paradoxes*, University of Chicago Press and Harvester Wheatsheaf, 1993; and Ha-joon Chang, *Kicking Away the Ladder: Developmental Strategy in Historical Perspective*, Anthem Press, London, 2002.

48 Cited in Ha-joon Chang, *Kicking Away the Ladder;* a summary article with the same name is available at http://www.fpif.org/pdf/papers/SRtrade2003.pdf.

49 List, *The National System of Political Economy,* op. cit.

50 Abraham Lincoln, Address before the Wisconsin State Agricultural Society, September 30, 1859, *Collected Works of Abraham Lincoln* available at http://showcase.netins.net/web/creative/lincoln/speeches/fair.htm.

51 At least, not without re-legalizing slavery and/or indentured servitude; as Milton Friedman conceded regarding his own proposal: *Capitalism and Freedom*, University of Chicago Press, 1962; 103.

52 A detailed and readable account of the origins of the Social Security system may be found in David M. Kennedy, *Freedom From Fear: The American People in Depression and War, 1929-1945*, Oxford University Press, 1999; 257-273; see also Allan Carlson, *Family and Community in the Shaping of the American Identity*, ISI Books, 2003; 55-77.

53 "U.S. Business Cycle Expansions and Contractions," National Bureau of Economic Research, http://www.nber.org/cycles.html, last accessed 20 February 2008.

54 "President Kennedy Appeals to the Congress for a Tax Cut, April 20, 1961, available at http://www.nationalcenter.org/JFKTaxes1961.html, accessed 20 February 2008.

55 Rates were to be lowered from a range of 20-91 down to 14-65 per cent, the closest round numbers to 30 per cent reduction; Congress finally enacted a 14-70 per cent range: 23 per cent at the top 30 per cent at top and 30 per cent at the bottom. A short accessible summary can be found by Bruce Bartlett, "Kennedy's tax cuts," can be found at http://www.townhall.com/columnists/BruceBartlett/2004/01/27/kennedys_tax_cuts.

56 Ronald Reagan, "A Time for Choosing," speech sponsored by Goldwater-Miller, October 27, 1964, transcript available at http://www.reaganlibrary.com/reagan/speeches/rendezvous.asp; Lyndon Johnson television advertisement, "Daisy," aired September 7, 1964, available at http://www.pbs.org/30secondcandidate/timeline/years/1964b.html.

57 Allan Carlson's term; see "'Sanctifying the Traditional Family': The New Deal and National Solidarity," in Carlson, op. cit.

58 Notably, expanded "welfare" benefits (Aid to Dependent Children, later Aid to Families with Dependent Children, ADC and AFDC): a 1934 New Deal program ostensibly made obsolete by the 1939 enactment of spousal and survivors benefits, but which became devoted almost solely to never-married or divorced mothers, supplanting the actual fathers; new Medicaid benefits for the indigent; and a new Medicare program for those older than 65. In all these cases the financing principle was essentially identical to the Townsend Plan that Franklin D. Roosevelt designed Social Security to pre-empt: rather than prior minimum contributions from recipients' families as with Social Security retirement pensions, eligibility was based in each case solely on age or other social "category," and funded entirely or mostly out of general income-tax revenues.

59 The idea that President Kennedy would have avoided escalating the Vietnam War like Johnson has been judged unlikely by presidential historians who have studied Kennedy's longstanding, emphatic views on both Vietnam and containment. "Tragically, had the President survived the assassin's bullet, he may have gone down the same road that later diverted Lyndon Johnson....In many ways, Kennedy's rhetoric well may have paved the way to the Vietnam War and America's internal conflict over U.S. involvement there." Denise Bostdorff and Steven Goldzwig, "Idealism and pragmatism in American foreign policy rhetoric: The case of John F. Kennedy and Vietnam," 24 *Presidential Studies Quarterly* 3:525-530 (Summer 1994), available at http://mcadams.posc.mu.edu/goldzwig.htm.

[60] As in 1964, Reagan had publicly suggested a provision to exempt from Social Security those "who could do better on their own." Lou Cannon, *The Role of a Lifetime,* Simon and Schuster, New York, 1991, 243.
[61] Ronald Reagan, "The New Republican Party," Speech to the 4th Annual CPAC Convention, February 6, 1977; available at http://reagan2020.us/speeches/The_New_Republican_Party.asp.
[62] Ronald Reagan, *Ronald Reagan: An American Life*, Pocket Books, New York, 1990; 316.
[63] Mundell and Wanniski wanted to restore a fixed-rate system with gold at $300 an ounce, while Lehrman (and I) thought such a plan would quickly fall apart like the two earlier versions of the gold-exchange standard.
[64] Ronald Reagan, "The New Republican Party," op.cit.
[65] *Ronald Reagan: An American Life*, op cit., 355.
[66] Milton Friedman, "If Only the United States Were as Free as Hong Kong," *Wall Street Journal*, July 8, 1997, available at http://www.hoover.org/publications/digest/3522326.html.
[67] "John [Anderson] tells us that first, we've got to reduce spending before we can reduce taxes. Well, if you've got a kid that's extravagant, you can lecture him all you want to about his extravagance. Or you can cut his allowance and achieve the same end much quicker. But Government has never reduced Government does not tax to get the money it needs. Government always needs the money it gets." The Anderson-Reagan presidential debate, Sept. 21, 1980, Commission on Public Debates, available at http://www.debates.org/pages/trans80a.html, last accessed Feb. 17, 2008.
[68] "Increasing taxes only encourages government to continue its irresponsible spending habits. We can lecture it about extravagance till we're blue in the face, or we can discipline it by cutting its allowance." Ronald Reagan, "Remarks at the Annual Policy Meeting of the National Association of Manufacturers," http://www.reagan.utexas.edu/archives/speeches/1982/31882c.htm, last accessed 17 February 2008.
[69] C. Northcote Parkinson, "Parkinson's Law," London *Economist*, November 1955; available at http://alpha1.montclair.edu/~lebelp/ParkinsonsLaw.pdf, last accessed 17 February 2008.
[71] At the end of fiscal year 1980, Federal debt in the hands of private investors (the non-bank public) measured just 9.8 per cent of U.S. GDP, and by the end of FY2007 had grown to only 17.8 per cent of GDP. However, total Federal debt was 32.6 per cent of GDP debt at the end of FY1980, and rose to 64.8 per cent of GDP by the end of FY2007. The whole difference was due to two factors: Treasury securities purchased by Federal, state, and local government "trust funds" (10.4 per cent of GDP at the end of FY1980, 32.3 per cent at the end of FY2004) and Treasury debt "monetized," or purchased by the banking system (12.4 per cent of GDP at the end of FY1980, 14.7 per cent at the end of FY2007). Examining the sources and uses of these funds reveals striking symmetries. In fiscal years 1981 through 2007, Federal borrowing for general government operations (excluding trust funds) averaged 4.2 per cent of GDP. Federal-owned investment rose sharply during the Cold War and fell sharply when it was over, but averaged 1.3 per cent of GDP; it was closely matched by increased holdings of Treasury debt by private investors. Annual borrowing to finance current Federal consumption of goods and services averaged 2.9 per cent of GDP; of this, 1.9 percentage points were financed by government trust funds (1.6 Federal, mostly Social Security; 0.3 state and local) and 1.0 percentage point by central banks (0.4 Federal Reserve; 0.6 foreign; in 2004 and 2006, foreign = 3.4 & 3.3.
[72] Perhaps most aptly of all, a key goal of the Reagan Legacy Project was to replace Alexander Hamilton's image on the $20 bill with Reagan's; symbolizing the transformation of Reagan's effort to uphold the Hamiltonian first principle of American political economy into a license to violate it in Reagan's name. "If you define what happened, you get to define the lessons of history," the same lobbyist explained**.** Michael Abramowitz, "Critics Take Lead in Defining Bush's Legacy," *Washington Post*, February 4, 2008, A19.
[80] Nicholas Eberstadt, "Born in the USA," *The American Interest*, Summer 2007, available at http://www.aei.org/publications/filter.all,pubID.25988/pub_detail.asp.
[81] U.S. Census Bureau, International Database, available at http://www.census.gov/ipc/www/idb/country/usportal.html, last accessed January 30, 2008.

[82] William Robert Johnston, "Abortion statistics and other data," is an extensive, thorough, and judiciously analyzed source of data for the U.S. and other countries: Johnston's Archive, http://www.johnstonsarchive.net/policy/abortion/index.html, last accessed 5 December 2007.

[83] John D. Mueller, "How Does Fiscal Policy Affect the American Worker?" 20 *Notre Dame Journal of Law, Ethics and Public Policy* 2: 563-619; retrieved from http://www.eppc.org/publications/pubID.2671/pub_detail.asp

[84] Congressional Budget Office, "A 125-Year Picture of the Federal Government's Share of the Economy, 1950-2075," July 3, 2002, available at http://www.cbo.gov/showdoc.cfm?index=3521.

[85] John D. Mueller, *The LBMC Plan for Tax Reform*, Memo to the National Commission on Economic Growth and Tax Reform, September 26, 1995; and "'LBMC Plan' Menu of Tax Reform Choices," September 27, 1995. For an updated discussion, see John D. Mueller, "Taxes, Social Security & the Politics of Reform," *The Weekly Standard*, November 29, 2004, 24-29; available at http://www.eppc.org/publications/pubID.2268/pub_detail.asp.

[86] John D. Mueller, "Winners and Losers from 'Privatizing' Social Security," op. cit, Appendix C.

[87] See James C. Capretta, "Building Automatic Solvency into Social Security: Insights from Sweden and Germany," *The Brookings Institution*, 1 March 2006, available at http://www.eppc.org/publications/pubID.2692/pub_detail.asp.

[88] U.S. Census Bureau International Data Base, Population Division/International Programs Center, available at http://www.census.gov/ipc/www/idbrank.html, accessed 2 May 2007.

[89] 1 Collected Works of Abraham Lincoln, available at http://showcase.netins.net/web/creative/lincoln/speeches/lyceum.htm.