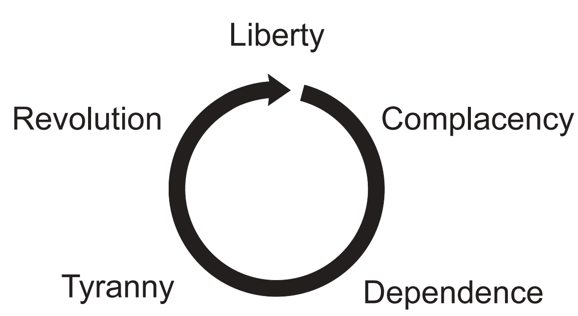
PPE Plastics Industry Forum

Volume IV

May, 2010

When reading this great article about the changes taking place in our government, two thoughts come to mind. First, the founding fathers of our great republic must be rolling over in their graves right now. They started this country with a simple and effective document called the Constitution (yes, I am aware that the Constitution was their second try). Our Constitution and the Bill of Rights guarantees its citizens certain freedoms and rights and outlines a very simple federal government with very basic powers, mostly to ensure the continuation of our republic. Any powers not delegated to the federal government by the Constitution were left up to the states to decide. The beauty of this design is that it allows its citizens to "vote with your feet". If a state was to over regulate and over burden its citizens, they could pick up and relocate to another state. Unfortunately, the federal government is the one that has over regulated and over burdened its citizens, so "voting with your feet" is not an option. In fact, the federal government, by granting itself more powers than ever intended, has bloated itself into something our founding fathers would not recognize. This change has happened gradually over the past 200 years, but the end result is a federal government so perverted from its original structure, that I would say we are at least 90 degrees off course. How many more years until we are 180 degrees off course? Basic rights are slipping away and other privileges or goods, that are not rights, are now considered rights (health care, home ownership, etc.)

The second thought that comes to mind is a memory from a political science class my freshman year in college. Almost 25 years ago I sat in that poli-sci class and listened to a professor drone on about the "progression of government" or "cycle of government" or whatever he called it. The theory was that there is a cycle of government that goes from tyranny to revolution to liberty to complacency to dependence then back to tyranny (see below). There are variations of this, for example, the tyranny stage can be a monarchy or a military dictatorship, the liberty stage could be called democracy or capitalism, the complacency stage might be socialism and the dependence stage might be socialism or communism. Some stages might be short lived or even overlap, but the end result is this continuous cycle. I thought to myself "this guy is nuts". America is the greatest country. Its people are free. If they work hard and become successful, they can live the American dream. Boy was I naïve. In the 25 years since I heard this theory, I have seen our country increasingly shift from the complacency stage into the dependence stage. If you put America's history into the cycle, the dates might be something like: Tyranny - early and mid 1700's, Revolution - 1776-1783, Liberty - 1783 through the early 1900's, Complacency - early 1900's through the late 1900's & Dependence - 1930's through ??? Wow we are 3/4 of the way around this circle! If you look at the agenda of "big government" groups, you can see a future well into the dependence stage and the early signs of the tyranny stage. Whether this cycle can be broken and our nation short-cutted back to the liberty stage without a revolution remains to be seen, but in the near future watch out for big government. (It is worth noting that this theory was developed before the United States existed, so this is not a case of someone Monday morning quarterbacking our history.)



While you read this article, keep in mind this is not a Democrat vs. Republican article. It isn't right vs. left either. However, it is big government vs. limited government. It is constitutionalists vs. interventionists. As the article points out, there have been both Republicans and Democrats that were interventionists, and unfortunately, we are stuck with one now.

Your Editor, Ed Kuchar Jr.
Vice President

Obama's Vision Through History

by Burton W. Folsom Jr., *Professor of History, Hillsdale College*

Dr. BURTON W. FOLSOM JR. is Professor of History at Hillsdale College in Michigan, where he holds the Charles F. Kline Chair in History and Management. Senoir Historian at the Foundation for Economics Education, Dr. Folsom is a columnist and author of The Myth of the Robber Barons and New Deal or Raw Deal? How FDR's Economics Legacy Has Damaged America.

The following is reprinted with permission from The American Spector November, 2009. www.spectator.org

Let's set the stage. After 25 years of economic growth, the U.S. stumbles into a recession and double-digit unemployment. An unpopular war aggravates the crisis; the national debt skyrockets. In response, the nation elects a fresh face: a first-term U.S. senator from a Midwestern state, with a vice president from an Eastern state. They promise hope and change; their party builds a formidable coalition of blacks, whites, and immigrants, and sweeps both houses of Congress. After his election, we had a President's Conference on Unemployment to deal with the job crisis. What emerged was a sensational plan: a stimulus package to create jobs — especially infrastructure jobs — and thereby attack unemployment directly.

Sound familiar? It should. The year was 1921, and the newly elected President Warren G. Harding and Vice President Calvin Coolidge faced many of the same issues as Barack Obama and Joe Biden 88 years later. What's different is how these men responded. Coolidge and Obama embody two starkly contrasting visions of economic order.

Over the last century, all presidents have bought in to one of these two visions. Harding, Coolidge, and Ronald Reagan were constitutionalists. Limit the government, they argue, and let entrepreneurs and free markets create growth. By contrast, Barack Obama and most of his predecessors -- especially Franklin Roosevelt -- have been interventionists. Government planning, federal spending, and a Keynesian fine-tuning of the economy are the methods they choose to spark the economy and sustain prosperity.

In the case of the 1921 recession, unemployment had indeed soared to 11.7 percent, and industrial income had fallen almost 25 percent in one year alone. But Harding and Coolidge (who became president in 1923 when Harding died) were constitutionalists. They opposed the popular stimulus scheme to use tax dollars to build public works. "The excess stimulation from that source," Harding insisted, "is to be reckoned a cause of trouble rather than a source of cure." They epitomized what President Obama would later call "The politics of No."

But what they said yes to was cutting income tax rates and slashing federal spending. That kind of discipline, they argued, would unleash entrepreneurs, reduce the federal debt, and release human energy for recovery.

Andrew Mellon, their secretary of the treasury, was a banking genius. He had helped launch Alcoa, Gulf Oil, and many other corporations. He designed the plan to cut tax rates and federal spending. In making his case, he made the astonishing claim that cutting tax rates might actually increase revenue. "It seems difficult to understand," he said, "that high rates of taxation do not necessarily mean large revenue to the Government, and that more revenue may often be obtained by lower rates."

When Mellon's prediction was attacked, Coolidge came to the rescue. "I agree perfectly with those who wish to relieve the small taxpayer by getting the largest possible contribution from people with large incomes. But if the rates on large incomes are so high that they disappear, the small taxpayers will be left to bear the entire burden."

With Congress in Republican hands, Harding, Coolidge, and Mellon began to implement their free market plans piece by piece. Therefore, the 1920s budgets showed surpluses every year, and income tax rates were chopped across the board, leaving the wealthiest Americans paying at a 25 percent marginal rate. The results were spectacular. By 1923, unemployment had plummeted to 2.4 percent. From 1921 to 1929, GNP soared a remarkable 48 percent, the "average annual earnings of employees" rose 34 percent, and almost one-third of the national debt simply disappeared.

Entrepreneurs enjoyed one of their most creative periods in U.S. history: from radios to sliced bread to Scotch tape, inventors marketed new products. Older inventions finally secured the capital to emerge: air conditioners, refrigerators, vacuum cleaners, and zippers thus found their way into millions of households across America. U.S. patent numbers were higher in 1929 than in every year thereafter until 1965.

Calvin Coolidge became an American icon. His reelection in 1924 was so overwhelming that the Democratic Party, with a mere 28.8 percent of the vote, appeared near death. In Coolidge's six years as president, he averaged 3.3 percent unemployment and less than 1 percent inflation -- the lowest misery index of any president in the 20th century.

One might think that Coolidge's spectacular success would have ended the economic debate. The constitutionalists had triumphed. Instead, after 1929, the interventionists, starting with Herbert Hoover, dominated American politics for the next 50 years. Hoover, who had been secretary of commerce in Coolidge's cabinet, often dissented from the president. In turn, Coolidge labeled him "Wonder Boy" and said privately, "That man has offered me unsolicited advice for six years, all of it bad." Hoover believed that targeted intervention could improve the economy without losing any of the gains from Coolidge's free markets.

Once in office, Hoover signed the highest tariff in U.S. history and then started a flow of federal subsidies (and loans) to farmers, bankers, industrialists, and those unemployed. The Federal Reserve, which is somewhat independent of the president, also intervened and contributed to the Great Depression that followed, by raising interest rates and shrinking the money supply. As the country wallowed in federal deficits, Hoover signed a bill raising income taxes to a top marginal rate of 63 percent. Entrepreneurs retrenched, and jobs rapidly disappeared.

With unemployment at 25 percent in 1932, Gov. Franklin Roosevelt of New York, the Democratic nominee for president, was poised to oust Hoover from office. In doing so, FDR decided to campaign as a constitutionalist, someone much less interventionist than Hoover.

Calvin Coolidge could have written FDR's campaign speech in Pittsburgh two weeks before the election. Hoover's deficits, FDR announced, were "so great that it makes us catch our breath." Such spending was "the most reckless and extravagant past that I have been able to discover in the statistical record of any peacetime Government, anywhere, any time." Of Hoover's tax hikes, FDR concluded that such a burden "is a brake on any return to normal business activity. Taxes are paid in the sweat of every man who labors because they are a burden on production and are paid through production. If those taxes are excessive, they are reflected in idle factories...."

Mellon was from Pittsburgh, and if he had been in the audience that day he would have cheered. You can't create jobs by taxing one group and giving to another -- you can only redistribute existing wealth. To create wealth, you had to cut tax rates, not raise them. That was the chief premise of the constitutionalists.

FDR may have used the rhetoric of limited government, but once in office he practiced the art of full-scale interventionism. Farm prices were low because of overproduction, for example, so Roosevelt offered the AAA, which paid farmers not to produce. Farmers obligingly took the free cash and stopped planting crops on part of their land; however, by 1935, the U.S. had crop shortages and had to import 36.4 million pounds of cotton, 34.8 million bushels of corn, and 13.4 million bushels of wheat. We were thus paying farmers not to produce what we were importing instead.

Then, under the NRA, FDR fixed prices for hundreds of industrial products, and Jacob Maged, Sam Markowitz, and Rose Markowitz, among others, went to jail for giving discounts to customers. "For a parallel," the New York Herald-Tribune said, "it is necessary to go to the Fascist or Communist states of Europe."

For the unemployed, FDR launched the WPA with an astounding $4.8 billion, the largest appropriation of its kind in U.S. history. The WPA built roads, schools, hospitals, and bridges-all of which gave work to many Americans. Coolidge had rejected that idea because of its constitutionality and because it merely transferred jobs from the private to the public sector.

Economist Henry Hazlitt, who wrote for Newsweek and the New York Times during the 1930s, argued that the WPA destroyed as many jobs as it created. "Every dollar of government spending must be raised through a dollar of taxation," Hazlitt emphasized. If the WPA builds a $10 million bridge, for example, "the bridge has to be paid for out of taxes....Therefore," Hazlitt observed, "for every

public job created by the bridge project a private job has been destroyed somewhere else. We can see the men employed on the bridge. We can watch them work. The employment argument of the government spenders becomes vivid, and probably for most people convincing. But there are other things that we do not see because, alas, they have never been permitted to come into existence. They are the jobs destroyed by the $10 million taken from the taxpayers. All that has happened, at best is that there has been a diversion of jobs because of the project."

Hazlitt had an interesting point. In 1930, the United States had a top tax rate of 24 percent and a starting rate, after exemptions, of 0.5 percent. In 1935 and 1936, the WPA spent billions of dollars on bridges, roads, airports, and school buildings, but the new tax rate, after exemptions, started at 5 percent and skyrocketed to 79 percent on top incomes. The country also saw a host of new excise taxes passed in the interim. That tax money could have been invested in the very projects (or maybe better ones) than the WPA was undertaking.

Since Roosevelt was merely shifting employment from private jobs to public works, we would expect few new jobs to be created. Also, because of the high tax rates, many entrepreneurs were investing in tax-exempt bonds, collectibles, and foreign businesses -- all of which did little to jump-start the American economy. Thus, with a few ups and downs, the unemployment rate was almost 21 percent in 1939 -- more than six full years after FDR took office.

Henry Morgenthau, FDR's good friend and also his secretary of the treasury, was frantic at the persistent unemployment. To leading Democrats, he confessed, "We have tried spending money. We are spending more than we have ever spent before and it does not work....I say after eight years of this Administration we have just as much unemployment as when we started....And an enormous debt to boot!"

Even spending for World War II did not cure the ailing economy. Going into the war we had more than 10 million people unemployed, and we put 12 million Americans in uniform overseas. After paying their expenses and shelling out for weapons, we had increased the national debt sixfold from $40 billion to $260 billion. Furthermore, in 1943 we made the income tax a mass tax and set the top rate at 90 percent. FDR wanted a 100 percent rate on all income over $25,000, but Congress insisted on letting wealthy Americans keep some of their earnings.

The seven presidents after FDR more or less continued the pattern of economic intervention. President Harry Truman signed the Employment Act of 1946, which empowered the federal government "to use all practical means" to achieve "maximum employment." President Eisenhower, alarmed by several recessions, signed a bill to build interstate highways because they were a large public works project that might lower unemployment. Instead, unemployment went up, and the Democrats took control of Congress in 1958 and the presidency in 1960.

President Kennedy did support tax rate cuts, and they did reduce the deficit, but President Johnson built the Great Society on a flurry of new entitlement spending, another tax hike, and massive federal debt. President Nixon instituted price controls, passed a 10 percent tariff increase, and spurred the regulatory state by creating the EPA, OSHA, the Clean Water Act, and more.

President Carter fully subscribed to government fine-tuning of the economy, but his intervention hit a sour note. He encouraged the Fed to inflate the money supply and the highest inflation in the 20th century resulted. Turning to the energy crisis, Carter called it "the moral equivalent of war." He tried gas rationing, wellhead price controls, a windfall profits tax, and urging businesses and households to turn down their thermostats. When all of this failed, he declared, "We must face the fact that the energy shortage is permanent." By 1980, Carter's misery index (unemployment plus inflation) was up to 20.8 percent -- quite a contrast from Coolidge's 4.3 percent during the Roaring Twenties.

After 50 years of interventionism, most Americans (according to Gallup polls) no longer believed their children would have more prosperity in the next generation. Although our federal spending had not stopped the U.S. economy from growing -- at least not until the Carter administration -- it had not delivered the freedom to expand into strong economic gain. As economist Lester Thurow concluded, "The engines of economic growth have shut down here and across the globe, and they are likely to stay that way for years to come."

Ronald Reagan thought differently. After he became president, he put Calvin Coolidge's picture up in the cabinet room, and thus signaled his intent to pursue Coolidge's constitutional policies of more limited government. Reagan did not accept the advice of Keynesian economist Paul Samuelson, author of the best-selling economics textbook in the United States. Samuelson suggested "five to ten years of austerity, in which the unemployment rate rises toward an 8 or 9 percent average and real output inches upward at barely 1 or 2 percent per year, might accomplish a gradual taming of U.S. inflation." Instead, Reagan, through Fed chairman Paul Volcker, stopped --or at least slowed down-printing money and inflating the currency. Also, Reagan, on the day he was inaugurated, signed an executive order ending all price controls on oil and natural gas. Then he promoted a series of tax rate cuts on corporate and personal income. In other words, his strategy was stop the printing presses, free up the flow of oil, and turn entrepreneurs loose.

And it worked -- in a spectacular way. In Reagan's presidency, the U.S. GNP grew by more than one-third -- a record 6.8 percent in 1984 alone. Inflation and unemployment plummeted and Reagan's misery index when he left office was a mere 8 percent -- exceeded at that time in the 20th century by Coolidge alone.

What made Reagan's prosperity different from the 1920s was that it lasted for fully 25 years. Coolidge's limited government dominated only his administration because he was followed by Hoover and FDR -- two of the most persistent interventionists of the 20th century. Reagan was followed by Bush, Clinton, and Bush, who were not exactly constitutionalists, but they did emulate some of Reagan's actions. At least they avoided massive government spending. George H. W. Bush, like Hoover after Coolidge, did raise the top income tax rate, but only from 28 to 31 percent. Clinton further hiked that rate to 39.6 percent, and the American economy stumbled a bit in the early 1990s. But the Republicans in Congress were led by Newt Gingrich, the constitutionalist Speaker of the House, and in 1994 he masterminded a Republican capture of Congress. His Contract with America bound the GOP to 10 reforms to limit government.

To be fair, President Clinton accepted some of these reforms and they transformed his presidency. First, he cut the capital gains tax, and business began to expand. Then he signed the third Republican welfare reform bill, which slashed the welfare rolls from more than 5 million to fewer than 2 million people. From 1994 to 2000, Clinton enjoyed prosperity, a low misery index, and even budget surpluses in the last years of his administration.

President George W. Bush had a brief slowdown in 2001 because of the dot-com bubble and the 9/11 attacks. But to his credit, he resisted some pleas to inflate the currency and spend his way back to prosperity. Instead, he further limited government's role in the economy by cutting the top income tax rate back to 35 percent, slashing the capital gains tax from 20 to 15 percent, and reducing the dividend tax from 39.6 to 15 percent. That produced what economics writer Stephen Moore called a "supply-side recovery." Business capital spending increased and, according to Moore, median household wealth increased by almost $20,000 ($40,000 to $60,000) from 2003 to 2007. Furthermore, individual and corporate tax revenue increased by 40 percent -- the largest dollar amount of revenue increase in U.S. history.

With U.S. economic growth dominating the world, leaders in other countries began to imitate the U.S. and reduce their governments' roles in their economies. New Zealand curtailed farm subsidies and saw growth in agriculture; Ireland slashed its corporate income tax rate from 48 to 12.5 percent and in 10 years its economy easily outperformed the European average, and more than 1,000 international companies moved there. Russia cut its income tax from more than 50 percent to 13 percent and watched the revenue increase. More than 20 countries, including socialist Sweden, cut their income or corporate tax rates, and most enjoyed strong increases in economic growth. Germany and Switzerland even have no tax on long-term capital gains. The world followed the United States, which had more than doubled its GDP from 1982 to 2007.

President George W. Bush (unlike his father) did recognize the value in cutting tax rates. Unfortunately, he did not use his veto power to control spending. In fact, he encouraged federal intervention by promoting a prescription drug benefit for seniors. He allowed his fellow Republicans in Congress to use earmarks to deploy federal dollars into their districts at home. The classic example was the proposed (but so far not enacted) Bridge to Nowhere in Alaska, a pet project of Sen. Ted Stevens, which cost $200 million to service an island of about 50 people.

During Bush's last year in office he veered far from constitutional government. When faced with rising unemployment, he supported not fiscal restraint but a $152 billion stimulus package. When the banking crisis hit later in 2008, he supported the TARP program of massive, and mandatory, relief for all large banks. The 25 years of steady growth and prosperity were over. Enter hope and change.

President Barack Obama fiercely admires FDR, and the two have much in common. Both went to Ivy League colleges and law school; then they started active political lives with victories in their state senates. Neither man had experience or interest in business, and both believed that the national economy needed much federal intervention to target spending and redistribute wealth.

Interestingly, both used the rhetoric of fiscal restraint in launching their presidential campaigns. FDR, as we have seen, promised a balanced budget, and 25 percent cuts in federal spending. Obama made a similar plea, only he did so more shrewdly. He knew that constitutionalists hated deficits because they shifted wealth to interest groups living now and imposed burdens on the future generations to pay the debt and the interest on it. Thus, when President Bush urged a raising of the debt ceiling in 2006, then senator Obama announced, "Washington is shifting the burden of bad choices today onto the backs of our children and grandchildren. America has a debt problem and a failure of leadership."

Obama continued this cry for fiscal restraint during his campaign and sometimes argued that the new programs he was proposing would actually help achieve a balanced budget. For example, during his presidential campaign, he regularly presented universal health care as a money saver for the nation. More recently, as president, he said, "Our health care problem is our deficit problem. Nothing else even comes close." The statisticians at the independent Congressional Budget Office emphatically disagree and argue that universal health care Obama-style will cost at least $1 trillion over 10 years, and that assumes rosy economic growth and no surprise expenses. Since almost all federal programs have cost overruns -- for example, "cash for clunkers" was three times the anticipated cost -- the $1 trillion deficit number is probably wildly optimistic.

Granted, when Obama came into office he faced hard economic times. So did FDR. In both cases, failed government programs triggered the crises. In the case of FDR, poor Fed policy, the highest tariff in U.S. history, and a huge income tax rate hike stifled economic growth. In the current crisis, the Community Reinvestment Act mandated that banks provide loans to low-income Americans who could not meet traditional criteria for safe lending. These dangerous loans increased sharply when the Fed lowered interest rates to 1 percent (and less) during 2003 and 2004.

Some critics warned that banks were making too many risky loans, but the banks simply sold the "toxic assets" to Fannie Mae (a New Deal creation) and Freddie Mac. Barney Frank told a nervous financial community not to worry. Critics of these loans to Fannie Mae and Freddie Mac, he said, "exaggerate a threat of safety and soundness" and "conjure up the possibility of serious financial losses to the Treasury, which I do not see."

When the housing bubble broke in 2007, Fannie Mae and Freddie Mac, along with many banks, began to crumble. Thus the creation of TARP to supply the banks with a sufficient reserve to hold off massive collapses.

"Never let a good crisis go to waste," Rahm Emanuel reportedly quipped, and President Obama early in his presidency has followed that advice. When we study his $787 billion stimulus package, and the huge annual budget that followed, three points need to be stressed. First, is the large numbers being used. FDR popularized the idea of discussing spending programs in billions of dollars, instead of millions. With Obama, we have graduated to using trillions instead of billions. For example, the deficit for 2009 alone is projected to be $1.6 trillion. Until the 1980s, our entire national debt was only about half of that. Hitting the 1-trillion-dollar national debt in the 1980s was eye-popping and sobering, but now it seems tiny.

Second, such massive spending has not been followed by either economic growth or a decline in unemployment. The same happened to FDR when he launched a flurry of spending in 1933. After two years of FDR's unprecedented spending and deficits, the economy was sluggish and unemployment was 22 percent. When Obama sponsored his $787 billion stimulus package, he bragged it would "create or save" about 600,000 jobs. Instead, we have lost more than that in the past year, as unemployment has lurched from 8 to almost 10 percent. Meanwhile, economic growth has stagnated.

Third, such massive federal spending has helped transfer cash from taxpayers to targeted interest groups. Not just the stimulus package, with its aid for education, green jobs, and community organizing, but Obama's omnibus spending bill had more than 9,000 earmarks in it. Cap and trade, and even universal health care, target aid to special interests and also favor unions. Obama has endorsed Card Check, which makes union organizing much easier, and he has increased the power and wealth of the Service Employees International Union (SEIU), among others. When General Motors came under government control, Obama made sure the UAW received aid beyond that mandated by legal bankruptcy laws.

To pay for this cornucopia of spending, President Obama, like FDR, has targeted rich Americans. In fact, Obama has promised tax breaks for those Americans earning under $250,000 and wants to leave the bill for his programs with the upper 1 to 5 percent of American families. He has proposed increases in the income tax rate and the capital gains tax, which, if enacted, are likely to stifle investing and entrepreneurship. When FDR raised the marginal income tax rate to 79 percent, he discouraged investors from starting or expanding businesses.

In 1929, with the top income tax rate at 24 percent, federal income tax revenue was $1.1 billion; in 1935, with the top rate at 79 percent, income tax revenue had plummeted to $527 million. Thus, FDR had to rely on (and sometimes increase) excise taxes on cigarettes, liquor, cars, gas, telephone calls, and movie tickets to pay for his New Deal. Likewise, Obama has already signed a tax hike on cigarettes, and he is discussing higher taxes on gas, wine, liquor, and soft drinks.

Since these excise taxes tend to hit lower-income earners hard, that will mean a transfer of wealth from lower incomes to targeted special interests.

When, during the campaign, President Obama was asked about the data that showed that cutting tax rates increased revenues, he brushed it all aside and said the issue of fairness was most important. But the most recent data (from 2006) on income taxes shows that the top 1 percent of the population pays 39.9 percent of all income taxes. What is their fair share? And what is the fair share for the bottom half of all workers, who currently pay 2 percent of all income taxes?

Here is another question: What will Obama do when his policies fail, when economic stagnation and unemployment persist at high rates? When FDR faced that problem throughout the 1930s, he had three responses. First, he used businessmen as a scapegoat for supposedly thwarting recovery. With high tax rates on income, corporations, and even the undistributed profits of corporations, most businessmen refused to risk their capital. FDR denounced them, and even used the IRS against some of them (Andrew Mellon in particular). Ray Moley, one of FDR's speechwriters, discussed this strategy at length with the president. According to Moley, FDR "launched into a denunciation of bankers and business men and said that every time they made an attack on him, as they did in the Chamber of Commerce of the U.S., he gained votes and that the result of carrying on this sort of warfare was to bring the people to his support."

Obama has already adopted this scapegoat approach. He started with President Bush, the alleged source of most economic trouble, and then, like FDR, shifted to businessmen. They were benefiting from tax cuts and their salaries were outrageous. With health care, Obama switched to insurance companies, who were supposedly ripping off consumers. Doctors as well, the president insisted, were removing tonsils unnecessarily and cutting off feet for loads of cash.

Businessmen may well return for an encore of denunciation. The Fed has inflated the money supply more dangerously than ever before in history, and we run a strong risk of inflation. When that happened to Jimmy Carter, he blamed businessmen for raising prices, and that option will be open to Obama as well.

FDR's second tactic for surviving failed policies was to use much of his federal spending, in effect, to buy votes. When the WPA received $4.8 billion in 1935, much of it was targeted to key voter groups for his re-election bid in 1936. As Sen. Carter Glass of Virginia concluded, "The 1936 elections would have been much closer had my party not had a 4 billion, 800 million dollar relief bill as campaign fodder."

In a somewhat similar way, Obama has benefited from the work of ACORN, which registered more than 1.7 million voters between 2004 and 2008. Rep. Darrell Issa has issued an 88-page report documenting illegal registrations and other criminal activity. Two amateur sleuths, with videos documenting ACORN officials offering to help set up brothels with underage immigrants, may have damaged ACORN beyond repair. The House and Senate have voted to cut off its funding.

Oddly, FDR also lost much of his WPA war chest when reporter Thomas Stokes exposed how the WPA used its workers to campaign for one of FDR's favorite senators, Alben Barkley of Kentucky. Stokes won a Pulitzer Prize for his exposé, and Congress passed the Hatch Act to limit the campaign activities of federal employees.

Like FDR, Obama has much of the media in his favor. In radio, FDR solidified that advantage by having the FCC reduce the period for renewing radio licenses from three years to six months; some radio station owners who did not cooperate with FDR did not have their licenses renewed. When FDR gave a fireside chat, radio stations rarely provided rebuttals. When Obama makes a major address, NBC, CBS, and ABC tend to be supportive, but Fox News presents both sides and talk radio is often critical.

If President Obama persists in massive federal intervention, he will -- if history repeats itself -- be faced with economic stagnation and high unemployment after four years in office. Whether he can be reelected, and win further support for his ideas depends on whether he is more like FDR or Jimmy Carter. With the WPA, a good scapegoat, and strong media support, FDR won elections and had high poll numbers even when he had unemployment of more than 20 percent in 1939. But even FDR had some luck. Polls had him losing to Willkie in 1940 until World War II knocked the ongoing depression off the front pages of newspapers.

Obama is developing his own scapegoats and he still has strong media support; even though he may have lost ACORN, he still has the 1.7 million voters registered by them in recent years. FDR had the good fortune to draw Alf Landon, the lackluster governor of Kansas, as his opponent in 1936; Jimmy Carter, by contrast, drew the great communicator Ronald Reagan in 1980. If Obama in 2012 should face someone who can effectively articulate the historical vision of economic growth and prosperity through limited government, then there will be new hope and change: hope for constitutionalism and change in the executive branch.

Reprinted with permission from The American Spector November, 2009. www.spectator.org