

# WebMemo



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## Fiscal Conservatism After the 2006 Elections

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*The following is Larry Kudlow's November 13 address to members of The Heritage Foundation's President's Club at the fall 2006 President's Club meeting, held at the Ronald Reagan International Trade Center in Washington, DC.*

We were endowed by our Creator with the inalienable rights of life, liberty and the pursuit of happiness. We were not endowed by the Federal Government, we were not endowed by entitlements, we were not endowed by pork barrel spending, we were not endowed by budgetary earmarks. We got our freedom and our liberty from the Creator, from God. That is a lesson conservatives have to remember.

Now, it is interesting. I'm an economist, at least I used to be. We had some data points today. The government published its budget and tax figures for the month of October, the first month of the new fiscal year 2007. And after three years of lower marginal tax rates on personal incomes, capital gains and dividends, the revenue tax collections at lower tax rates are soaring, continue to soar at a 12 percent rate. At a 12 percent rate this will mark, I think, the third straight year at a double digit rate. If that doesn't justify the Laffer Curve, I don't know what will.

But unfortunately the spending rates continue to hover around 8 percent and therein lies the problem, and therein lies one of the issues of this election. It's an invisible-hand issue; it is not being discussed in the mainstream media. A simple-back-of-the-envelope calculation suggests that if we had held government spending to something on the

order of about 6 percent—no big deal, even that's almost twice the rate of inflation—the budget would be virtually in balance, at lower tax rates today in this fiscal year. If we had made modest spending restraint adjustments, on entitlements and non-entitlements alike. That's how close—that's how good a story this could have been. [Applause.]

If we had held government spending to something on the order of about 6 percent—no big deal, even that's almost twice the rate of inflation—the budget would be virtually in balance.

That's how good a story this could have been. And there is no institution that has talked more about this than The Heritage Foundation. That's why I'm so pleased to be able to speak this evening on these points. The idea that there's something called big government conservatism and rapid spending, the idea that pork barrel spending and corrupt budget earmarks wins elections helped us to lose this election. I know Iraq was a big issue, but that's what helped us to lose this election. [Applause.]

If you look very carefully at the exit polls and rank the top issues, alright, let me start with this—extremely important issues—corruption was 41

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percent, terrorism and the economy 39, Iraq 35. If you go down one notch and say, ask them extremely and very important issues, economy 82, corruption 74, terrorism 72, Iraq 67, from which I conclude it is still the economy, stupid.

Now, the point I want to make this evening is that even though the economy is functioning at a healthy rate, with low unemployment, plenty of job creation, plenty of wealth creation, plenty of home ownership, the fact remains under the surface the economic issue has suffered from the issues of over spending and budget deficits. A recent Boxwood Poll by the Club for Growth shows that the Republican Party has lost its brand as the party of low spending and limited government. That's what the data show. People for low spending and limited government are now voting Democrat in this last election. That may be the dumbest vote they've ever made, but there you have it, we have lost that great issue. It is not good. We have to take it back. [Applause.]

In addition to maintaining low tax rates, maybe getting rid of the corporate income tax altogether, maintaining the retirement accounts, maintaining all of the investor class tax-free savings accounts including the key aspect of Social Security reform, things that I think my other friends and colleagues have spoken about—I have a very simple idea for the White House and the new Republican leadership in Congress. Don't be on the defensive, do not appease the left, do not slide left, do not move your lips. [Applause.] Instead, merely propose a spending limitation bill on the road to a balanced budget at current low tax rates. [Applause.] I want to see this. Conservative Democrats. Red—what do we call them now—it used to be boll weevil—Blue Dog Democrats. They are conservative. I've interviewed a bunch of them on the program. Ross Perot voters, independents who deserted the GOP heavily.

The CNN poll released, I don't know, 10 or 12 days ago showed that the Reagan message of limited government and limited services is still intact by nearly two to one. They put that out. I don't know if anybody paid attention to it. It was a classic Reagan message: by about 55-35, people said government is still reaching too far.

I want a spending-limit PAYGO. The Democrats will offer a revenue PAYGO, which means when they propose a hundred billion dollars of additional spending on education and health—and Lord knows what else—in the next session of Congress, they will work to raise taxes to finance it. That's a phony revenue PAYGO. I want the GOP—House, Senate, White House—to be united behind a spending-limit PAYGO which says if you increase spending here, you must lower spending here. It's very simple. [Applause.] This was the message of the high tide of the Gingrich army, Congress in the middle 1990s. Bill Clinton is getting credit for a balanced budget.

Those are old fashioned, Reaganesque Republican ideas. We need to renovate them. A spending limit—and then complete the task of tax reform, and then complete the task of tax free investor savings accounts, and then complete the task of free trade, and other economic growth policies, and then go after the deregulation of business, but before we get even to the Thanksgiving week, before the Democratic leadership runs away with the politics of the day, I want to see all three branches of the Republican party go for this spending limitation and balanced budget approach at lower tax rates. That is our job, that should be our response, right now. [Applause.]

And if they won't go there, if we can't get it done, then the great think tanks like Heritage and all of us, the scribblers, the broadcasters, you name it, this should be our mantra, I want a spending limitation, balanced budget approach at low tax rates to promote economic growth and regain the Reagan high ground principles. [Applause.] That is my message tonight.

You can only get one point, one good point on the air in a six- or seven-minute segment. Mine is spending limits, balanced budgets, low tax rates, and Ronald Reagan, and then we can come back in 2008 as I know we will.

Ed Feulner, thank you for having me.

—Larry Kudlow is an economist and host of CNBC's "Kudlow and Company."