The Good Economic News for 2017

By Richard W. Rahn

AMERICA CAN HAVE FOUR PERCENT OR HIGHER GDP GROWTH IN THE COMING YEARS

The good news for 2017 is we can have 4 percent or higher real economic growth per year over the next few years — and here is how.

Some of the critics of President-elect Trump have insisted that the approximately two-percent annual average GDP growth the U.S. has experienced over the last seven years is the "new normal," and we just need to get used to it. It has led to stagnant incomes and tens of millions of involuntarily unemployed or underemployed workers. The present slow-growth path is also unsustainable, with ever-rising debt levels of a share of GDP which will eventually lead to a financial collapse.

Some economists have argued that the aging of the work force and the slowing of productivity growth means that getting back on the high-growth path is nearly impossible. Most people, including many economists, cannot imagine the huge gains in productivity that can arise from an increase in incentives and unseen innovations. As an example, back in the 1920s there were serious projections that an ever-growing percentage of the work force would be employed as telephone operators — because automatic electronic switching, let alone the cellphone, had not been invented. Billions of people around the world now have smart phones which give them access to all of the world's knowledge, almost for free. It would have cost everyone millions of dollars only two decades ago for all of the smartphone apps provided for pennies — perhaps giving mankind the biggest (and almost unmeasured) increase in standards of living in so short a period of time.

Fortunately, getting America back on the high-growth track only involves things that we know how to do and have done at times in the last four decades. Specifically: Eliminating regulations that do not meet a real and objective cost-benefit test; Reducing tax rates to levels where they are internationally competitive and no longer incentive destroying (e.g. corporate and capital gains tax rates no higher than 15 percent); and Restricting government spending to only those things that are clearly Constitutional and meet a serious cost-benefit test. Realistically, not all of this will be done, given the nature of our political system and the competence of even the most well-intentioned government elected official or bureaucrat — but even going part of the way on each of these items will provide enormous dividends for the American people.

Back in 1980, presidential candidate Reagan proposed doing almost exactly the above, because, at the time, the U.S. was incurring a bout of economic stagnation, with very high inflation. In 1981, I was one of the economists who defended the Reagan program before the House Ways and Means Committee against Democratic Keynesian economists who were claiming that such growth rates were not possible or compatible with a lower rate of inflation. Mr. Reagan fell somewhat short of fulfilling his policy goals, but he made enough progress on each, so that by 1983, the first full year of the implementation of "Reaganomics," the economy grew rapidly (more than 4 percent on average) for the next seven years — even more than the Reagan team had projected.

In 1996, President Clinton compromised with the Republican Congress, led by House Speaker Newt Gingrich, to enact both a lower capital gains tax rate and a flexible freeze which kept the real (inflation adjusted) rate of government spending almost flat, enabling the economy to again grow an average rate of more than four percent per year for the next five years.

What needs to be done to revive the economy is well known — but it takes a huge amount of political will to resist all of those forces that have caused our existing regulatory, tax, and spending bloat. President-elect Trump's Cabinet contains a number of people, including Mr. Trump, who have admittedly acted as crony capitalists in the past, whereby they legally used their influence with government officials to get special subsidies, tax or regulatory breaks for their companies. Mr. Trump claims that since they know how the game is played, they are the best ones to end it — we shall see.

Some will try to sabotage the proposed tax rate reductions by over-exaggerating how much they will increase the deficit. (Mr. Trump should add well known growth oriented economists like Larry Kudlow, and David Malpass to offset these negative voices.) Yes, tax rate reductions will increase the deficit in the short run, but if properly structured, and if government spending is held to less than the real increase in economic growth, the deficits will decrease as a percentage of GNP (the relevant measure) in the long run. The government revenue estimators have been hopelessly wrong for decades because they fail to correctly anticipate the increase in incentives for productive work and investment from tax rate reductions — and thus their projections should be discounted. It took the Reagan tax cuts about seven years for them to "pay for themselves" — the amount of time that it took the economic pie to get big enough so the government was actually receiving more tax revenue, even though its slice of the pie was smaller. But, they resulted in much greater employment at higher real wages — and most importantly, more liberty.

Richard W. Rahn is chairman of Improbable Success Productions and on the board of the American Council for Capital Formation

http://www.washingtontimes.com/news/2016/dec/26/economy-should-pick-up-in-2017/