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Suite 200
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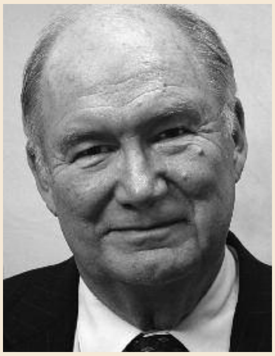
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

A SYMPOSIUM OF VIEWS

One Policy Change, Please

***TIE* asked this question: What if you became President of the United States in January 2013 and could accomplish only one realistic policy change to restore economic growth and employment to historic trend levels? What would that policy change be?**

A collection of expert opinions.



Remove the fiscal cliff scenario.

RUDOLPH G. PENNER
Institute Fellow, Urban Institute, and former Director, Congressional Budget Office

Businesses are delaying investment and employment decisions and retarding the recovery because the next few months are filled with unprecedented policy uncertainty. By the end of January we will know whether we have fallen off the so-called fiscal cliff—a precipice that involves the largest tax increase since World War II, severe spending restraint imposed primarily by a mindless across-the-board cut in almost all budget accounts, and a major cut in physician reimbursements for Medicare.

If we do fall off the cliff, the single most important thing that a president can do is to urge a restoration of most of the tax and spending policies of 2012. Otherwise we face a significant recession. If, by Inauguration Day, Congress has already extended most 2012 policies, it will not have ended policy uncertainty. We know that current fiscal policies are not sustainable in the long run, but we do not know what will replace them.

Therefore, it will not be enough to keep most 2012 policies in place. However the extension is accomplished, it must be supplemented with a presidential announcement that on March 1 he will convene a summit of congressional leaders and the chairmen and ranking members of major taxing and spending committees. The summit will not adjourn until there is an agreement to sufficient deficit reduction to stabilize the debt-to-GDP ratio by 2024.

The approach is similar to that taken with the Andrews Air Force Base summit of 1990. Cynics will note that the policy package agreed to at Andrews was subsequently voted down by Congress. But the meeting provided leaders with enough information to make changes in the package that were eventually adopted. The result was a very significant deficit reduction that contributed to balancing the budget in the late 1990s.

Achieve a bipartisan Grand Bargain.

STUART E. EIZENSTAT
Partner, Covington & Burling, LLP, former Chief White House Domestic Policy Adviser to President Carter, and former Deputy Secretary of the Treasury

The president who takes the oath of office in January will face a daunting challenge: there are no global drivers of world GDP growth. Key emerging countries such as China, India, and Brazil are simultaneously slowing down, the eurozone is in a recession, and the United States suffers subpar growth. The International Monetary Fund has warned of renewed global recession risks after the world has just extracted itself from the Great Recession of 2008–2009.

Several steps need to be taken immediately. First, call an immediate G-20 meeting in the president's first weeks in office to develop a consensus for synchronized action, similar to the 2009 G-20 summit, in which joint action prevented a global depression.

Second, reinvigorate global trade talks, not by trying to resuscitate the dormant Doha Round, but by announcing the start of negotiations for a U.S.-EU Free Trade Agreement to create a tariff-free, barrier-free trans-Atlantic marketplace, and then open the agreement to any countries that wish to take on the comprehensive obligations, and by rapidly completing the Trans-Pacific Partnership negotiations.

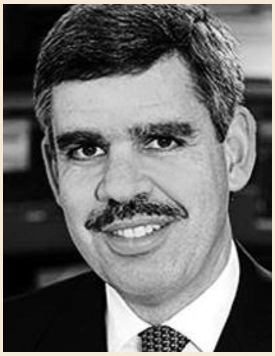
But the single most important action is for the president to fashion a bipartisan Grand Bargain with the congressional leadership that accomplishes the following:

■ Avoids the "fiscal cliff" facing the United States at the end of 2012 with the expiration of the Bush-era tax cuts and the automatic sequestration of over $1 trillion in spending, which if not averted would shut down the nascent recovery of the United States, the world's largest economy;

■ Extends the debt limit, without the cataclysmic battle that almost brought the United States to its knees in 2011;

■ Sets the framework for a genuine $4 trillion to $6 trillion ten-year deficit reduction package, bringing our total federal debt to a manageable level of 60 percent of GDP. This can be accomplished by a tax reform package that lowers individual and corporate rates by eliminating loopholes and subsidies while increasing revenues; encourages American corporations to bring home their foreign profits; and reforms our entitlement programs serving our increasingly aging society, especially Medicare, in order to restrain the soaring costs of health care.

This is not an impossible task. President Obama and House Speaker Boehner came close to an agreement. Even though actual legislation would take all of 2013 to enact, an agreed framework would provide greater certainty for individuals and corporations (who have some $2 trillion on their books waiting to be invested); lift the stock market; and increase consumer confidence that our government is capable of facing its greatest economic challenges.



Achieve a multi-faceted pivot in the growth model.

MOHAMED A. EL-ERIAN
CEO and Co-CIO, PIMCO

Virtually every challenge the United States faces, from restoring medium-term fiscal sustainability to maintaining global leadership, is linked to the need for more robust and inclusive economic growth.

With the country having overdosed for almost a decade on leverage and credit entitlement, this will not materialize easily. It requires a multi-year and multi-faceted pivot in the growth model—away from finance dependency and back to greater reliance on competitiveness, entrepreneurship, and great social responsibility.

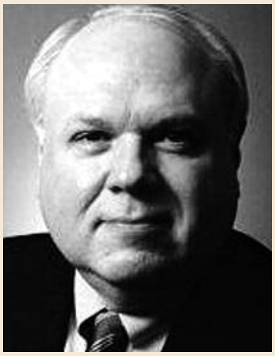
This is possible, but it requires steadfast policy and political commitment. And popular buy-in will not be forthcoming if Washington fails to more clearly articulate and implement a more comprehensive and effective economic approach.

By appointing a visibly accountable economic policy czar, the president can rely more on structure to do some of the heavy lifting. This person would pursue daily the implementation of the president's medium-term economic vision, with the power to overcome departmental turf wars in favor of simultaneous pursuit of coordinated reforms.

A unified vision out of this part of Washington can also serve to counter congressional dysfunctionality. In addition to being a better source for common analysis, it would better highlight policy interlinkages—including the manner in which political dysfunction amplifies economic shortfalls.

Yes, America has a activist Federal Reserve whose chairman, Ben Bernanke, is willing to wander further into unfamiliar territory to stop low growth (and high joblessness) from being embedded in the structure of the economy. But this bold experimentation will disappoint if unaccompanied by simultaneous reforms in housing, public finances, credit intermediation, infrastructure, education, and the functioning of the labor market.

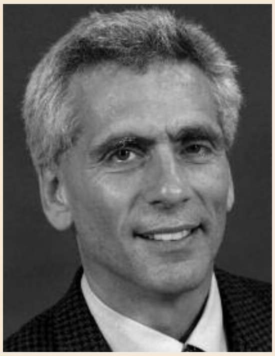
It is a rare situation in Washington where one plus one equals more than two. This is one of them, and it comes with enormous payoffs for both current and future generations.



Get Paul on the line!

BRUCE R. BARTLETT
Author of* The Benefit and the Burden: Tax Reform—Why We Need It and What It Will Take *(Simon & Schuster 2012)

Make Paul Krugman secretary of the Treasury. Do what Krugman suggests.



A 2013 fiscal stimulus in the $600 billion range.

JARED BERNSTEIN
Senior Fellow, Center on Budget and Policy Priorities

I'd recommend using the fiscal cliff crisis as an opportunity to get on a stable fiscal path while offsetting its contractionary impact through aggressive temporary stimulus.

Going over the fiscal cliff is rightly viewed as a disaster because this economy is still too weak to absorb more than $500 billion in tax increases and spending cuts without heading back into recession. On the other hand, going over the cliff puts the budget on a stable path, something most economists agree is essential for future growth and investment.

Is there a way to both get on the better budget path but avoid a double dip?

In fact, there is, and it's simple: offset the cliff-induced fiscal contraction with a large, temporary stimulus.

Since taxes reset to the rates that prevailed in the Clinton years—very strong years for growth, jobs, and the federal budget, mind you—the budget would move toward balance, as the Congressional Budget Office has consistently pointed out under their "current law" baseline scenario. This would still be the case even were we to temporarily increase the budget deficit relative to the new baseline next year in order to apply a hefty stimulus package comprised of fast-acting measures such as aid to states and cities—the source of most layoffs right now—and infrastructure projects such as improving the energy efficiency of our public schools.

Because of the large stimulus in 2013—I'd recommend something in the $600 billion range—it would take a couple of more years for the budget deficit to settle into "primarily balance" (where revenue pays for spending other than interest costs), maybe 2016 instead of 2014. But so what? That's way more fiscally responsible than any other alternative out there.

So fear not the fiscal cliff—turn crisis into opportunity, and then offset the crisis part.

Adopt Jerry Brown's 1992 tax plan.

ARTHUR B. LAFFER

Founder and Chairman, Laffer Associates, and member, President Reagan's Economic Policy Advisory Board

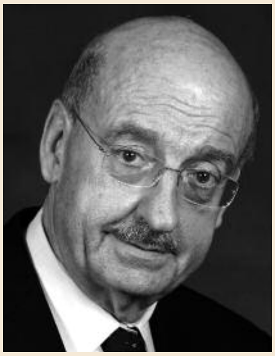
Damn realism! The best policy to restore economic growth would be to compensate politicians just like the rest of us: based on their performance. Merit pay is the answer. You move the cheese, you move the mice.

Realistically, however, the key to prosperity is a low-rate flat tax combined with spending restraint *à la* Simpson-Bowles or Rivlin-Domenici. We could easily get the highest rate down to 25 percent and retain static revenue neutrality.

The 1986 Tax Reform Act, as an example, dropped the highest rate from 50 percent to 28 percent and raised the lowest rate to 15 percent. Where there had been fifteen tax brackets before the TRA '86, there were only five brackets afterwards, and by 1988 only two. TRA '86 kept revenue neutral on a static basis by elimination of a number of deductions, exemptions, exclusions, and other "loopholes." And the bill had huge bipartisan support. It passed with a vote of ninety-seven to three in the Senate. Let's do it again. There's no need to guarantee permanent despair by high tax rates.

The more taxes that are folded into a single tax along the lines of the Simpson-Bowles plan, that is, with a broader tax base and lower, flatter rate, the better off we will be. High rate taxes on narrow tax bases, such as inheritance, estate, and wealth taxes, are deadly for an economy in that they never raise the expected revenues and they drive away job creators like mad. Just look at what happened in the United Kingdom when Prime Minister Cameron two years ago raised the highest rate to 50 percent from 40 percent and raised the VAT from 15 percent to 20 percent: sharp losses in tax revenues and a double-dip recession.

The best flat tax plan was outlined by Jerry Brown in his 1992 presidential campaign. Governor Brown's plan had a 13 percent flat tax on gross unadjusted income and a 13 percent VAT, both with very few exemptions, deductions, or exclusions, which would make it a difficult tax to evade or avoid. Jerry Brown's proposal rocketed him from nearly last place in the 1992 primary race to second place, receiving 20 percent of the vote in the end. A plan like Jerry Brown's 1992 proposal would usher in an era of prosperity in America not seen since Reagan.



Dramatically reduce policy uncertainty.

JOHN H. MAKIN

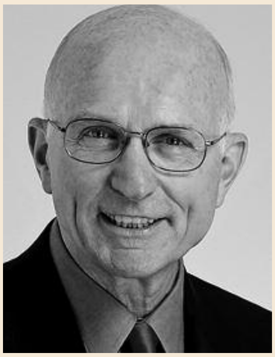
Resident Scholar, American Enterprise Institute

There is no single policy change a president could make to restore economic growth and employment to trend levels. There is, however, a single aspect of policy—uncertainty—that if reduced across a broad range of policy areas could help to restore growth and employment to levels that prevailed before the 2008 financial crisis.

Economic uncertainty rises as more possible outcomes emerge with probabilities that cannot be estimated. Economic policy uncertainty arises when the probability of a given policy path cannot be estimated and/or the outcomes tied to alternative, as-yet-unknown paths cannot be estimated either. The 2008 financial crisis and its aftermath created sharply elevated economic policy uncertainty and present a major reason why recovery from the crisis has been so slow.

The initial spike in policy uncertainty tied to the onset and early aftermath of the Lehman crisis was unavoidable. This accounts in large part for the intensity of what has come to be known as the Great Recession in the United States. However, since 2010, too many policy responses—including the debt ceiling debacle of mid-2011, the morass of indecipherable legislation in Dodd-Frank, the complexity of the new healthcare law, the Fed's QE3 experiment, and the imminent year-end "fiscal cliff"—have all contributed to intensifying the recession. Empirical research by Scott Baker, Nicholas Bloom, and Steven J. Davis has found that elevated economic policy uncertainty since 2008 has been sufficient to produce sharp reductions in employment, investment, and industrial production.

The most effective economic stimulant in 2013 would be a reduction, under presidential leadership, of the high level of economic policy uncertainty that has built up since the 2008 financial crisis. Less social engineering with the tax system, less government management of healthcare, and monetary policy aimed exclusively at achieving price stability would lift the U.S. economy back toward 3 percent to 4 percent growth by 2014.



Reduce the non-war defense budget.

LAWRENCE J. KORB
Senior Fellow, Center for American Progress

Returning the base or non-war defense budget to its FY 2007 level adjusted for inflation and keeping it at that level in real terms for the rest of the decade is a realistic policy change that as president I would make.

Such a change would allow the country to save $500 billion over the next decade and put that money into other areas of the federal budget where it will create significantly more jobs than defense spending without harming national security. In fact, if done correctly it will actually enhance national security.

As the Political Economy Research Institute at the University of Massachusetts demonstrates, every $1 billion spent by the Pentagon creates 11,000 jobs. Thus, a $500 billion reduction would result in the net loss of about 550,000 jobs. However, spending that same $1 billion on education would create about 27,000 jobs or a net increase of 16,000 jobs per $1 billion per year and 800,000 over the next decade. The U.S. economy would get similar results if those defense dollars were spent on health care or clean energy.

And if that money were used to reduce taxes, the gain would be 4,000 jobs per $1 billion or 200,000 more jobs over the next decade.

Even with this reduction, the United States would still account for nearly 40 percent of the world's total military expenditures. Moreover, such a reduction would force our allies, particularly those in Europe who are slashing their defense budgets, to stop being free riders. Finally, it would force the Pentagon to manage its funds better. Over the past decade, when spending on defense doubled to levels not seen since World War II, the services spent $50 billion on cancelled weapons and allowed the cost of the ninety-two major weapons systems in production to grow by $400 billion.

In 2001, the United States accounted for one-third of the world's military expenditures and one-third of the global economy. Today it accounts for one-half of the world's military spending and less that 20 percent of its economy. Putting unneeded defense dollars into other areas of the federal budget will help restore that balance.

Mobilize the Big Four.

W. BOWMAN CUTTER
Senior Fellow and Director, Economic Policy Initiative, Roosevelt Institute

On November 7, the just-elected president of the United States should announce a committee composed of Alice Rivlin, Pete Domenici, Alan Simpson, and Erskine Bowles. He should tell that committee to produce by Thanksgiving one integrated version of the economic and debt plans they have already written. He should say he wants a plan that will do three things: allow us to avoid the impending fiscal cliff and the craziness of the upcoming lame duck session; shore up economic growth; and credibly get us off our disastrous debt and deficit track over the next ten years.

He should commit to supporting what they can bring to him unanimously. Then he should tell the lame duck Congress that he wants them to end this fiscal cliff nonsense by postponing everything to June, and ask them not to name a special committee, but instead give the permanent committees of Congress specific instructions to solve the debt/deficit plan with the Rivlin-Domenici-Simpson-Bowles plan going automatically into effect if Congress fails to act. As soon as they've done this, he should tell them, they should go home.

In early December as he makes this plan public, he should appoint either Rivlin or Bowles as Secretary of the Treasury; name the other three as senior advisors; and task the designated Treasury Secretary with accomplishing a full agreement by June 2013.

Why these four? They're the only people in America who have put themselves publicly in the line of fire and dared to create genuinely bipartisan credible plans. They all have years of public service. They can read and count. And not one of them gives a damn about the inevitable hysteria that will emanate from the left or the right.

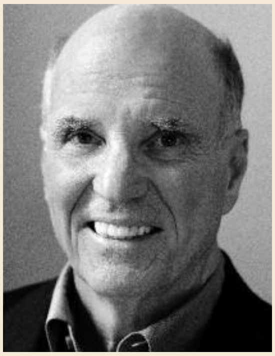
President Obama's choice is straightforward. He can own this issue, set in motion now a real effort to alter current debt and deficit trends, and have a good shot at a successful second term. Or he can wait, and as our circumstances become worse, fight a protracted battle throughout his second term on the same issues that bedeviled him throughout his first term.

Pursue countercyclical fiscal policy.

JEFFREY FRANKEL

Harpel Professor of Capital Formation and Growth, Harvard University

The one important change: Pursue countercyclical fiscal policy rather than procyclical fiscal policy. That is, we should go back to a long-term fiscal framework that systematically moves toward budget surpluses when the economy is expanding and toward deficits when the economy is weak. Self-proclaimed fiscal conservatives have been doing the opposite over the last decade: During the 2002–2007 expansion they were busy cutting taxes and raising spending ("Reagan proved that deficits don't matter," said Vice President Cheney). When the 2008–2009 recession struck, all of a sudden they decided that the debt was an urgent problem after all, supposedly requiring immediate cuts in domestic spending. To debate fiscal rigor versus stimulus as a general proposition is as foolish as debating whether to turn the car right or left: it will make sense to turn one way or the other depending where we are in the road at a particular time. The right policy today is first, big steps to lock in a long-run return to fiscal discipline, and simultaneously, renewal of the short-term fiscal stimulus because unemployment is still high. Speeches promising to balance the budget are worthless. Concrete examples of steps to lock in a long-run return to fiscal discipline include raising the future retirement age to help put social security on a firm footing, pre-announcing a gradual future rise in the gasoline tax, and eventually phasing out subsidies to the oil and agricultural sectors. Concrete examples of short-term fiscal stimulus include extending Obama's reduction in the payroll tax for low-income workers, investing in infrastructure, and giving money to the states so they can stop laying off teachers, firefighters, police, and construction workers.



A large-scale public infrastructure investment program.

JEFF FAUX

Founder and Distinguished Fellow, Economic Policy Institute, and author of* The Servant Economy *(Wiley, 2012)

There is no single policy—realistic or not—that will bring broad-based prosperity back soon. But making a ten-year commitment to a large-scale public infrastructure investment program would be a good start.

On its current trajectory, the U.S. economy will remain mired in slow growth at least throughout the next presidential term. Monetary policy is squeezed dry. Consumers—beset by unemployment, falling wages, and deflated assets—are not spending. Therefore business is not investing. With China unwilling to accommodate a substantially lower dollar, trade will remain a net drain.

Government fiscal expansion remains the only hope for economic acceleration in the short run. At the same time, our deteriorating infrastructure is a drag on longer-term growth and competitiveness. After decades of under-funding maintenance and improvements, the cost of bringing roads, water systems, energy grids, and schools up to acceptable standards is estimated at well over $2 trillion and rising.

With interest rates low, plenty of idle labor, and investors awash in cash, this is the ideal time for the federal government to organize a large-scale multi-year commitment to an infrastructure investment program. A model already exists in congressional proposals for an infrastructure bank. Government-owned, the bank would avoid the conflicts of interest that plague privately owned, publicly subsidized housing finance institutions, but be able to leverage the participation of pension funds and other sources of private capital.

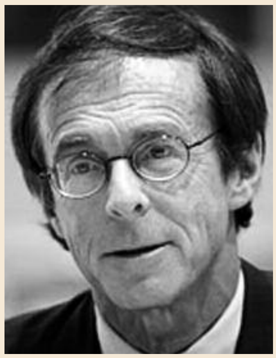
According to the polls, the public supports this sort of deficit spending, indicating a common-sense appreciation of the logic of capital budgeting. The barrier is the populist right-wing ideology that has paralyzed Washington. But if whoever is president cannot solve that problem, the next four years will not be much different than the last four, and could be much worse.

Eliminate regulatory hurdles to growth.

HILDA OCHOA-BRILLEMBOURG
Founding President and CEO, Strategic Investment Group

The United States has seen extraordinary increases in regulatory hurdles over the last few years in the aftermath of the leveraging cycle that resulted in the financial crisis of 2008. Examples of regulatory hurdles impeding additional economic growth and employment are many. They affect the fracking/liquefied natural gas industry, the financial services industry, health care, and education among most other economic sectors. The hurdles faced by most industries have detracted from credit expansion, infrastructure spending, manufacturing, and service sector growth, and have added costs to suppliers in each of these industries that make them uncompetitive in many cases relative to the rest of the world. I do not know which sets of regulations would provide the best opportunity for streamlining relative to the political costs involved. But I do know that many of these hurdles could be eliminated administratively rather than through congressional approval, by an administration willing to focus its efforts on growth and employment. In a nutshell, eliminating regulatory hurdles in the United States would increase efficiency and competitiveness in all industries.

There is enough liquidity, corporate debt capacity, entrepreneurial zeal, and investment drive to create growth and employment in many industrial sectors. Unfortunately, the regulatory hurdles that impede new capital spending and investment, which we could reduce in the near term, are a more forceful deterrent to growth than an aging population and high level of consumer indebtedness, which we cannot change in the near term. That I think is good news! Once we improve the near-term prospects for the U.S. economy, we can work on solving the medium- to long-term problems, which may present congressional and political obstacles.



Tax reform with zero percent capital gains and dividend rates.

ALLEN SINAI
Chief Global Economist, Strategist, and President, Decision Economics, Inc.

Within a context of long-run federal deficit and debt reduction, the single most important policy change to head the economy and employment toward historic trend performance would be tax reform.

By tax reform is meant reductions in individual and corporate tax rates, broadening the tax base by eliminating, phasing out, or capping itemized tax deductions taken by households, and eliminating corporate tax "loopholes" including untaxed profits held abroad. Capital gains and dividend tax rates should be zero, as capital gains and dividends are already taxed at both the corporate and individual levels. The zero capital gains tax would only be applied to long-run profits and/or income associated with new jobs.

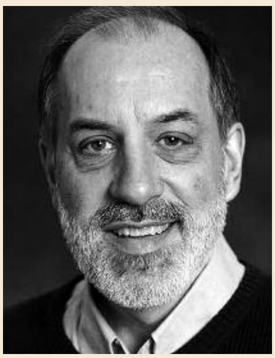
Such a policy could be designed as revenue neutral, *ex ante,* and would be pro-growth, generating *ex post* tax receipts that could partially offset the costs of the rate reductions.

The incentive effects of lower individual and corporate tax rates, and the elimination of distortions in the tax system, for example, tax subsidies to housing, health care, and other areas, would lead to efficiencies that would help increase economic and jobs growth.

Proper assessment of any policy, especially a revenue-neutral program, needs to be on a dynamic basis, that is, taking account of the growth effects, induced tax receipts, and reductions in federal spending that a stronger economy would entail. Even though individual tax rates would be lower, *ex ante* a source of lost tax revenues, any *ex post* gains in growth and employment would generate offsetting increases in corporate profits, excise, and capital gains tax receipts.

Similarly, on the corporate side, a tax rate competitive with those of other countries would lead to repatriation of profits held abroad—sizeable amounts—that would enhance corporate balance sheets and stimulate business hiring and capital spending.

In a time both of unsustainable deficits and debt and a huge jobs deficit, no other single policy change could achieve so much, especially when account is taken of the macro- and microeconomic effects of such a policy, *ex post.*



Expand fiscal policy.

LAURENCE M. BALL
Professor of Economics, Johns Hopkins University

The U.S. unemployment rate is 8 percent—three percentage points above the 5 percent that was considered normal just a few year ago. The next president's top priority should be to reduce unemployment.

The main tool that's available is expansionary fiscal policy—tax cuts and increases in government spending. If fiscal expansion is politically infeasible, the president should at least push back against congressional proposals for fiscal contraction, which would worsen unemployment.

In past episodes of high unemployment, countercyclical monetary policy has pushed unemployment down. The Federal Reserve has increased aggregate demand by cutting interest rates, and higher demand has raised output and employment. Unfortunately, it is difficult for the Fed to influence the economy today because it cannot cut short-term interest rates—they are already near their lower bound of zero. As a result, fiscal expansion is probably the only way to increase demand and reduce unemployment in the near future.

Politicians disagree about the effects of fiscal policy, but the best research finds that fiscal expansions are effective at reducing unemployment. For example, economists at the International Monetary Fund have studied fiscal policy since the 1980s in thirty-three countries. They find that cutting taxes or raising government spending by 1 percent of GDP reduces unemployment by about half a percentage point on average.

U.S. policymakers are leery of fiscal expansion because they worry about its effect on the national debt—a reasonable worry in light of a debt/GDP ratio near one and the prospect of even higher debt in the future. However, a fiscal expansion could be combined with policies that put debt on a sustainable long-run path, such as reform of entitlement programs. Even in the short run, a fiscal expansion could have benign effects on debt because it would increase output, leading to higher tax revenue.

A massive infrastructure program.

ANDREW FIELDHOUSE
Federal Budget Policy Analyst, Economic Policy Institute and The Century Foundation, and former staff member, House Budget Committee

One policy change? Restore full employment with a mass infrastructure program.

The U.S. economy faces a huge shortfall in aggregate demand—with output running $988 billion (6 percent) below potential—which is holding back employment. In today's liquidity trap, boosting demand with deficit-financed fiscal stimulus remains the most effective lever for restoring full employment. A mass surface transportation, water, and energy infrastructure investment program—exceeding $1 trillion over five to seven years—would efficiently accelerate the return to full employment, and more opportune timing is difficult to imagine.

Infrastructure spending is particularly cost-effective in boosting demand in a depressed economy. Moody's Analytics estimates that $1 of infrastructure spending presently generates $1.44 in demand. Consequently, the sticker price of infrastructure investments overstates their effective cost; the cyclical deficit shrinks about 37 cents for every dollar output rises toward potential, so more than 53 percent of outlays are self-financing. This undertaking would reduce long-run economic scarring by employing a higher level of resource utilization today, but also increase the productive capital stock, laying the foundation for higher potential output.

The American Society of Civil Engineers estimates that $2.2 trillion of investment is needed over five years just to raise our infrastructure from "poor" condition to "good." Only half of this investment is expected to be met. State budgets are in no position to pick up this slack. The federal cost of financing investments is also near record lows: Treasury's ten-year borrowing cost is under 1.7 percent and in the negatives for real interest rates (that is, TIPS). Further deferring maintenance increases net-present-value costs to taxpayers, because upkeep and rehabilitation is cheaper than replacing defunct infrastructure.

Federal infrastructure investment should muster bipartisan support; it traditionally has and it's supported by business groups and organized labor alike. Increasing investments in the midst of a jobs crisis and during a period of near-record low financing costs is a no-brainer.

Progrowth tax reform.

DAVID M. JONES
President and CEO, DMJ Advisors, LLC, and Executive Professor of Economics, Lutgert College of Business, Florida Gulf Coast University

The one most important policy change comes on the fiscal side. In order to boost economic growth, we must have comprehensive pro-growth tax reform like that achieved in 1986 by the Reagan Administration and more recently recommended by the Simpson-Bowles Commission. Congress, with the approval of the White House, should close or limit most tax loopholes (including those for mortgage deductions, charitable gifts, state and local taxes, and Cadillac health care plans), while lowering marginal tax rates for both corporations and individuals permanently by 25 percent. Cuts in marginal tax rates have been shown to stimulate spending, output, and employment going all the way back to the Kennedy Administration. The cut in corporate tax rates is particularly critical at present because U.S. corporate tax rates are the highest in the developed world. Such a cut is necessary for U.S. corporations to become more competitive on the global stage, and the necessary permanent feature of the cut in marginal tax rates should lessen widespread uncertainty and help build public confidence. Since the Berlin Wall fell in 1989, unleashing rapid globalization, deregulation, and financial innovation, the world has seen the free flow of goods, services, labor, financial capital, and ideas across previously closed national borders. Most strikingly we have seen the global labor supply more than double, keeping a lid on U.S. wage increases.

It goes without saying that global financial capital will flow to the most innovative and productive country that treats it the best. The United States is benefiting from productivity-enhancing innovation in information technology as well as the internet and perhaps social media. Looking ahead, the United States has the potential, assuming a lower corporate tax rate and favorable financial capital inflows, to benefit from new hydraulic fracturing technology in domestic oil and natural gas discovery and production, possibly making the United States energy self-sufficient within a decade. The resulting low U.S. energy costs should attract foreign industry and jobs. With U.S. energy imports plunging and potential energy exports surging, the chronic U.S. current account deficit should be transformed into a current account surplus, returning the United States to creditor nation status where it was earlier in the post-World War II period.

Adopt a multi-year Federal budget.

MURRAY WEIDENBAUM
Professor of Economics, Washington University in St. Louis, and former Chair, President Reagan's Council of Economic Advisers

Adopting a true multi-year federal budget would generate many benefits, including eliminating the frustratingly ineffective annual debate on the public debt limit. A multi-year budget could also provide substantial stimulus to the current weak economy while assuring a shift to a tight budget policy several years later when strong economic growth (hopefully) has been achieved. At present, the current participants in the budget process do not trust their successors to take the relatively painful future actions required to shift to a policy of cutting back on federal government spending even when it makes good economic sense.

Veterans of the budget process know that there are many opportunities for sensible budget cutting. These range from generous agricultural subsidies (mainly benefitting large farms) to a host of ineffective and uncoordinated outlays supporting energy producers, to a variety of overlapping local development programs sponsored by the Departments of Housing and Urban Development, Transportation, Commerce, and Interior. President Harry Truman was right when he said that he never saw a budget that could not be cut.

First, define "normal."

JAMES K. GALBRAITH
Lloyd M. Bentsen, Jr., Chair in Government/Business Relations and Professor of Government, Lyndon B. Johnson School of Public Affairs, University of Texas at Austin

I would repeal the second law of thermodynamics, with an effective date of (say) 1800, unlocking the potential to reuse all of the energy that the world has depleted since the beginning of the industrial age.

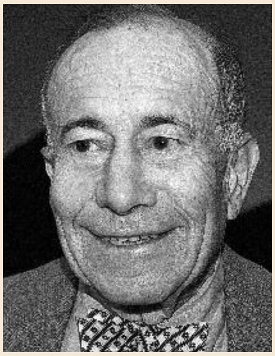
Darn entropy! What an annoying business that is, to have time moving forward and never backward, heat always traveling toward a cooler body, waste always increasing. Admittedly we'd fry without it, but…you can't have everything.

TIE asks how to restore the growth to its "long-run historical trend." How long-run? If we go back to the start of good postwar GDP statistics, we'll get one answer. If we project back to the start of the republic (around 1790), we'll get another. But why stop there? Why not go back, oh, a thousand or ten thousand years? Then the yearly growth rates drop toward zero and the last few centuries recede into insignificance, a mere blip. Which long run are we really in?

Why do we assume that the post-war period of high economic growth was "normal"? Among the conditions that prevailed in 1945 were U.S. dominance of world industry, the centrality of the dollar, American military hegemony outside the Soviet sphere, abundant cheap domestic energy, and no known environmental problems.

We're not in that world now. Yes, the dollar remains the foundation of world finance (thank you, architects of the eurozone!). But otherwise, U.S. industry is no longer so special. Having left Iraq, our military is looking for the exits from Afghanistan, graveyard of empires. Our energy picture is cloudy; it will depend on the unknown prospects for natural gas. And we have climate change.

Toto, we're not in Kansas anymore.



A simpler and flatter tax system.

CHARLES WOLF
Distinguished Corporate Chair in International Economics, RAND Corporation, and Senior Research Fellow, Hoover Institution

Policy changes that will restore growth and employment, and have at the same time realistic possibilities of enactment, are indeed few and far between. My favorite candidate is a decisive move toward a simpler and flatter tax system.

The essential components of this change have been outlined by economists on both sides of the political spectrum. They consist of the following:

- A revenue-neutral structure would be targeted on a federal revenue level approximating 20 percent of GDP;
- A rate structure would have a top bracket of 28 percent of all income sources, including salaries, bonuses, capital gains, dividends, interest, and carried interest;
- The top tax rate would apply to corporate as well as personal income;

- No more than two lower marginal rates would apply to income below the threshold level at which the 28 percent rate kicks in (for example, the threshold could be specified as $500,000);
- A cap on allowable deductions would be set at some level between $17,000 and $25,000, but set at a sufficiently low level to assure compliance with the revenue-neutrality criterion mentioned above.

The president should accompany the legislation that establishes this simpler and flatter tax policy with a resounding affirmation of its overriding purpose. That purpose is to encourage and energize the private business sector to deploy the enormous resources it possesses to enhance growth and employment—resources that include both human talent and the ample financial liquidity presently in corporate balance sheets and the large excess reserves of the banking system. The president's pronouncement would emphasize that the government's task is to guide and constructively regulate the business environment in directions that encourage private enterprise, while relying on a vigorous entrepreneurial business sector to generate growth and employment.