POLICY FOCUS

An Agenda for Broad-Based Prosperity

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

More than six years after the official end of the Great Recession, America's economy continues to disappoint. The current recovery has been defined by slow GDP growth and even slower productivity growth. Some economists believe these are the predictable effects of a "debt supercycle." Others worry that we face a long-term problem of "secular stagnation." Still others blame recent fiscal, regulatory, and monetary policies.

One thing is clear: Lawmakers need a comprehensive agenda for broad-based prosperity.

We need to transfer more of our tax burden from income to consumption. We need to rebalance federal spending so that entitlements don't crowd out basic research and development and other valuable discretionary programs. We need to expand apprenticeships so that high-school students have more pathways to a successful career. We need to transition toward a skill-based immigration system that serves our national interest.

We also need to get rid of pointless occupational-licensing requirements that discourage work and entrepreneurship. We need to rethink land-use restrictions that constrain housing supply. We need to eliminate the Affordable Care Act's employer health-insurance mandate in order to protect full-time jobs. We need to adopt patent rules that promote real innovation while curbing abusive litigation. We need to end "too big to fail" and make our financial system more conducive to stable economic growth. And we need to insist that all major federal regulations receive congressional approval before taking effect.

Such reforms would increase opportunity and improve living standards.

WHY YOU SHOULD CARE

America's sluggish economic performance threatens the well-being of current and future generations.

- **We Have a Disturbingly Low Labor-Force-Participation Rate (LFPR) among Prime-Working-Age Men.** As of 2013, the LFPR among men aged 25 to 54 was significantly lower in America than it was in Japan, Sweden, France, Germany, Spain, the United Kingdom, or Canada, according to a St. Louis Fed analysis. Indeed, of those eight countries, America was the only one where the LFPR among prime-age men was under 90 percent. As of August, the U.S. rate stood at 88.1 percent. This is both an economic problem and a social problem.

- **"Underemployment" Hurts Young Americans in Particular.** Accenture Strategy's 2015 U.S. College Graduate Employment Study found that roughly half of all 2013 and 2014 graduates are working in jobs that do *not* require a college degree.

- **Slow Growth Exacerbates Our Long-Term Debt Problem.** The Congressional Budget Office projects that, on current trends and policies, the ratio of publicly held federal debt to GDP will increase "sharply" after 2025, with "serious negative consequences for the nation."

For these reasons and more, we need a comprehensive agenda for broad-based prosperity.

MORE INFORMATION

The Bubble and Its Aftermath

America's current economic recovery, which began in June 2009, has been the weakest in modern history. While the headline U.S. unemployment rate has fallen to 5.1 percent, the labor-force-participation rate (LFPR) has declined to a 38-year low, with the LFPR among men aged 25 to 54 hovering near an *all-time* low. In addition, the proportion of America's labor force doing part-time work for economic reasons was higher in August than it was the month that Lehman Brothers collapsed (September 2008), and private-sector wage growth remains lethargic.

Some analysts, such as former International Monetary Fund chief economist Ken Rogoff, believe that post-crisis growth and unemployment levels can be attributed to a "debt supercycle." Simply put: Americans racked up huge amounts of private debt during the bubble years, and their subsequent "deleveraging" (i.e., debt reduction) placed an anchor on the economy.

Other economists, such as former U.S. Treasury secretary Larry Summers, worry that we face a longer-term problem of "secular stagnation" in which the economy suffers from persistently inadequate investment demand. Summers has noted that, if we look back over the past 15 years, it is difficult to find "any sustained stretch during which the economy grew satisfactorily with conditions that were financially sustainable."

By contrast, many conservatives think the chief impediments to faster growth are recent fiscal, regulatory, and monetary measures. “The U.S. economy is not a turtle,” writes Stanford economist John Taylor, “but a caged eagle ready to soar if released from the captivity of bad government policy.”

Regardless of which analysis is correct, lawmakers should be developing an agenda for broad-based prosperity.

Breaking the Stalemate on Tax Reform

Implementing such an agenda would require both parties to move outside their comfort zone. Consider the debate over tax reform. Congressional Democrats oppose tax cuts that would deplete revenue and/or make the tax system more regressive, while Republicans oppose tax *increases* that would harm economic growth and/or finance new spending. Hence the current stalemate on Capitol Hill.

The solution is to balance income-tax reductions with a new consumption tax, as Senator Ben Cardin has proposed. Though Cardin is a liberal Democrat from deep-blue Maryland, he has sponsored legislation that would (a) bring the top individual-income-tax rate down from 39.6 percent to 28 percent, (b) exempt most people from federal income taxes altogether, and (c) slash the corporate rate from 35 percent to 17 percent. Cardin would recoup the lost revenue by establishing a value-added tax (VAT) of 10 percent, or possibly more, depending on what was necessary to make the bill “revenue neutral.” He would also create new refundable tax rebates for the poor and the middle class — both to help offset the VAT and to replace existing tax credits — and he would tax individual capital income at the same rates as regular income.

Cardin’s proposal — which is modeled on the Competitive Tax Plan devised by Columbia law professor Michael Graetz — is far from perfect. Yet it offers a blueprint for improving the efficiency of America’s tax system while maintaining high levels of progressivity. Indeed, a Tax Foundation analysis predicts that the Cardin plan would deliver “a permanent increase in the size of the U.S. economy,” with the bottom quintile of earners seeing the largest relative income gains. The plan’s basic outline should therefore be the starting point for a real debate over pro-growth tax reform.

How to Rebalance Federal Spending

Of course, reforming the tax code would address only one part of America’s fiscal challenge. On the spending side, we need to prevent entitlements from crowding out worthy discretionary programs. As Congressional Budget Office (CBO) founder Alice Rivlin has put it, lawmakers should be “shifting federal spending — at the margin and over time — toward productivity-enhancing public investment and away from lower-priority consumption.”

That means, above all, reining in expenditures on health care in general and Medicare in particular. CBO estimates that major healthcare programs, which accounted for less than 8 percent of federal outlays in 1980, will represent more than 28 percent in 2015. Meanwhile, total discretionary outlays — including outlays for national defense, basic R&D, transportation, education, anti-poverty programs, and much else — will be less than 32 percent, down from nearly 47 percent in 1980.

Medicare reform is obviously a political minefield, but certain changes should be no-brainers. For example, we could start by means-testing various provisions (e.g., out-of-pocket-spending caps and premiums) based on lifetime income. As for Social Security, Andrew Biggs of the American Enterprise Institute proposes automatically enrolling workers in employer-provided IRAs while transforming Social Security into a "flat universal benefit" that would "improve social-insurance protections for low-income Americans."

The Case for (Many) More Apprenticeships

In addition to making Social Security and Medicare more sustainable, these reforms would free up greater resources for useful discretionary spending. One area that deserves stronger support from federal, state, and local governments alike is vocational training.

Apprenticeships have proved quite successful in Western Europe — particularly in Germany, Switzerland, and Austria — and Urban Institute scholar Robert Lerman has highlighted evidence that "the rates of return to apprenticeships far exceed alternative training methods for middle-skill jobs." We also have evidence that apprenticeships can boost participants' academic performance by making school seem more relevant to their interests and ambitions.

Unfortunately, total government spending on apprenticeships is a drop in the bucket compared with public outlays for colleges and universities. Trade journalist Peter Downs notes that, in 2013, America had less than 40 percent as many registered apprentices as the United Kingdom, despite having a population five times larger.

Officials at all levels of government should therefore do much more to encourage the creation of European-style training programs. Expanding apprenticeships would increase the number of skilled workers, raise middle-class incomes, and bolster U.S. manufacturing.

The Right Immigration Reform

Speaking of skilled workers, Washington urgently needs to overhaul our immigration regime. The America of 2015 is very different from the America of 1915. A century ago, we had (a) no welfare state and (b) an abundance of job opportunities for low-skilled workers. Today, we have an enormous welfare state, and low-skilled workers face an increasingly harsh labor market.

And yet, we are stuck with immigration policies seemingly designed to import poverty, foster dependency, and hamper assimilation. By prioritizing family ties over skills, the United States has created a system of "chain migration" that guarantees a massive and steady influx of low-skilled immigrants.

Whatever benefits the current system might provide to employers, it does *not* serve the interests of America as a whole. Instead, it imposes a real strain on the budgets of schools, healthcare systems, and other government social programs. Steven Camarota of the Center for Immigration Studies has estimated that, in 2012, 49 percent of legal-immigrant-headed U.S. households reported using at least one means-tested welfare program, compared with only 30 percent of native-headed households. The figure was 72 percent among legal-immigrant-headed households with children.

Mass low-skilled immigration also distorts U.S. job markets. For example, Federal Reserve economist Christopher Smith has found that "growth in the number of less-educated immigrants may have considerably reduced youth employment rates."

America should thus move toward a skill-based immigration system like the ones in Canada and Australia.

Curbing the Regulatory State

All of these reforms should be complemented by a basket of regulatory changes. At the state and local levels, policymakers should jettison needless occupational-licensing requirements that destroy jobs and raise prices while doing little or nothing to improve consumer safety. They should also revamp land-use restrictions that have inflated housing costs in cities such as New York and San Francisco.

At the federal level, lawmakers should eliminate the Affordable Care Act's employer health-insurance mandate in order to protect full-time jobs. They should enact patent rules that promote innovation and crack down on so-called trolls (individuals or firms that buy questionable patents and then sue genuine inventors). They should abolish "too big to fail" and make the financial system more conducive to balanced economic growth. Finally, Congress should force President Obama to sign or veto the REINS Act, which passed the House of Representatives in July and would require congressional approval for all regulations with an annual cost of $100 million or more.

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Given the importance of broad-based prosperity to America's future, these issues should be at the center of the 2016 presidential campaign.

Shrink Finance, Boost Productivity?

Above a certain threshold, the expansion of a country's financial sector is harmful to productivity and GDP growth. That's the conclusion reached by a number of prominent economists, including Stephen Cecchetti of Brandeis University and Enisse Kharroubi of the Bank for International Settlements.

In a recent study of 33 manufacturing industries spread across 15 developed economies, Cecchetti and Kharroubi found that financial booms are especially harmful to "sectors that are either R&D-intensive or dependent on external finance." More specifically, they calculated that "a highly R&D-intensive industry located in a country with a rapidly growing financial system will experience productivity growth of around 2 percentage points per year less than an industry that is not very R&D-intensive located in a country with a slow-growing financial system."

In other words, excessive financial growth makes it harder for innovative industries to get the resources they need.

Examining U.S. trends since 1948, Matthew Klein of the *Financial Times* has noted that "the growth rate in productivity was systematically faster when the finance sector was relatively smaller, and then when the finance sector got bigger, productivity growth got smaller."

All of which suggests that we should make finance a smaller, more broadly beneficial part of our economy.

WHAT YOU CAN DO

You can help encourage reforms that would increase opportunity and broad-based prosperity.

- **Get Informed:** Learn more about these important issues. Visit:
  - The Independent Women's Forum
  - The Tax Foundation
  - The Institute for Justice

- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

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