Human Events
POWERFUL CONSERVATIVE VOICES

5 ways to get America working again

By: **David Harsanyi**
7/23/2012

Step one? Please, stop.

It would probably strike the average politician as absurd to argue that the best way to fix the economy is to stop trying to "fix it." But as John Taylor, former economist at the Council of Economic Advisers and professor of economics at Stanford University, argues, the most effective way to regain our edge is to change the way we think about the economy. This means returning to "first principles." As an economic matter, Taylor defines this by saying that "families, individuals, and entrepreneurs must be free to decide what to produce, what to consume, what to buy and sell, and how to help others."

Not exactly a radical notion. Yet, from health care reform to environmentalist policy, from fiscal reform to the gutting of welfare reform, the economic agenda of Washington the past four years—and even longer—has corroded our traditional understanding of economic freedom.

Washington has many immediate tasks in front of it, of course: stopping the fiscal cliff that would result in a bevy of 2013 tax hikes, reforming entitlements and dealing with the explosion of dependency programs. But on a macro level, what the nation needs most, as Taylor argues, is predictable government, the rule of law, incentives that derive from the free-market system rather than activist government.

In other words, we need to get back to basics. Here are five ways Washington can stop "fixing" and start helping:

1. Austerity now!

Not long ago, few Americans knew, or cared, about the Baltic nation of Estonia. Nowadays, the small country is mentioned regularly within free-market economic circles as a pristine example of how cutting back government spending can spur economic growth. As Daniel J. Mitchell, an expert on supply-side tax policy at the Cato Institute who recently toured some Baltic nations tells Human Events, the turnaround in Estonia is real and so are the cutbacks. "They asked themselves a simple question," Mitchell says, "What do we want? Our government to spend our money or the productive sector of our economy to spend it? Estonia—even though they haven't been perfect—came up with the right answer."

Like the United States, Estonia experienced a brutal recession in 2008, as its economy shrank nearly 20 percent—a number that took Greece five years to achieve. Rather than devaluing its currency or pumping money into inefficient government institutions, the small nation went the other direction: instituting genuine austerity– unlike the phantom cutbacks of many nations across the continent, or, worse, proposals to raise taxes. Public-sector wages were cut by 10 percent, the retirement age is being raised gradually from 61 to 65 by 2026 and other free-market reforms were instituted.

Estonians didn't riot, but they did reelect the reform government and watched their economy grow at five times the euro-zone average.

Although every nation has its own set of problems, Mitchell points to comparable success stories over the past few decades in Canada, Ireland and New Zealand. By constraining government growth, the United States could also reduce the burden of government on its ailing economy and allow hundreds of billions of dollars to be reallocated from wasteful enterprises to productive industry.

Then, we can start seriously talking about the debt crisis, allowing the American people to regain some of the confidence they've lost in their government.

2. Simplify the tax code

The IRS Taxpayer Advocate Service recently estimated that paperwork associated with the federal tax code costs Americans $160 billion a year. Paperwork! The code is comprised of 25 volumes, over 76,000 pages, or about nine feet of soul-crushing paper. Two companies publish daily newsletters to keep everyone abreast of the ever-complex changes. We can fix it. Broaden the tax base, close loopholes and flatten the tax rates—all of which would bring more revenue stability and certitude to projections as well as make filing a comparable breeze.

We already have some basis for negotiations. Alan Simpson and Erskine Bowles, co-chairmen of the National Commission on Fiscal Responsibility and Reform, a group established and then promptly ignored by the president, have come up with a plan that would eliminate most deductions, exclusions and credit in the tax code. It would reduce tax rates and put them into three brackets of 8, 14 and 23 percent.

Is the plan perfect? Hardly. But it's a start.

With the recent Supreme Court decision finding Obamacare constitutional, congressional taxing authority has been expanded and now, Washington can use taxation to do just about anything. Simplification of the tax code would not only unlock dormant economic potential, but, in the process, it would blunt the preferred weapon of social engineers, who reward favored industries, punish success and distort economic incentives.

3. Best stimulus? Cheap energy

When looking at the states boasting the fastest rate of job creation during this long downturn—Texas, North Dakota, Louisiana, Oklahoma, West Virginia, Utah—you will surely notice that they share one characteristic in common: they produce fossil fuels.

The price of energy is embedded into all of the economy. As a fungible commodity, government has only so much power to affect the cost of energy—and the Obama administration has done nearly all it can to make it more expensive. With less government interference, however, experts estimate that oil and gas industry would create hundreds of thousands of jobs by even modestly expanding on the domestic resources.

Consequently, the Environmental Protection Agency should be regarded as one of the nation's leading job killing institutions. It has not only made oil and natural gas exploration more difficult, but it has instituted draconian rules regarding pollutant limits on coal plants—the same plants that provide us with most of our power. Let energy be, and let the economy grow.

4. No more easy money

The prevailing notion among many high-profile economists and financial journalists is that the Federal Reserve should do more to help the economy. By "help" they mean devalue the dollar.

We have not seen much inflation—not yet. But make no mistake: what these experts are advocating with an array of euphemisms is a devaluing of your home, your bank account and your retirement fund. In the past few years, the U.S. Federal Reserve has used quantitative easing (expanding the money supply by increasing the quantity of reserves in the banking system) and other means to try and kick-start the economy. Yet it has done little to help.

And because the economy remains sluggish, Wall Street's welfare queens still eagerly await more easy money and rely on negligible interest rates. Economists at major banks like Goldman Sachs are predicting that we'll soon see a third round of quantitative easing.

But is the problem liquidity? Many banks and companies have vast cash reserves, but they're not lending and they're not hiring.

So why pump more? As economist and scholar Thomas Sowell says, "in the old-time Keynesian economic religion will always say that the only reason creating more money hasn't worked is because there has not yet been enough money created."

And the Fed's game of footsie with Wall Street is only creating more uncertainty. Saying no more will allow the economy to move forward on its own.

5. Repeal — then must replace

Health care in America, despite all you hear, still offers us citizens one of the most efficient and highest quality systems in the world. But it's expensive, and it's only getting worse.

Last year, the average cost of health care for a family of four increased nearly 7 percent to $20,728 annually. The Centers for Medicare and Medicaid Services projected that overall national health spending would increase an average of 6.1 percent a year over the next decade. Health care spending will reach about $4.6 trillion by 2019, according to a report in the journal Health Affairs, accounting for one of every five dollars we spend.

Republicans need a comprehensive free-market plan that will create more competition, more choices and lower costs.

Yes, first Washington must repeal — because not only does Obamacare add tremendous new administrative burdens and cost onto businesses but it bends the cost curve up — but then it needs a plan in place that allows individuals and businesses to come up with their own cost-effective solutions. Right now, no one knows what the future will bring, or what the costs will entail. Again, certainty in health care will go a long way in allowing the economy to move forward.