

All You Need Is Growth

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As sure as the cuckoo clock chimes at midnight, the Left is bloviating that Donald Trump's tax plan will blow a \$5 trillion hole in the deficit. Many of the people complaining loudest were in the Obama administration and helped preside over a \$9 trillion tidal wave of new debt. Now they are fiscally chaste. Sure.

They maintain that a tax cut has to be paid for by corresponding tax increases on someone else. But raising taxes on Paul to pay for a tax cut for Peter negates the positive effects of the tax reduction. This also incites powerful interest-group opposition to the tax bill and makes it less likely that it will happen — which is exactly why the Left is insisting on revenue neutrality. They want to torpedo the tax cut.

Steve Forbes, Larry Kudlow, Arthur Laffer and I recently signed a statement urging President Trump to drop revenue neutrality because it is a trap. We called for a net tax cut, and implored him to make the cut immediately. Kudos to Trump for getting this right.

The point of the Trump tax cut is to get more jobs and higher wages. America needs real and sustained growth of 3 or 4 percent.

During the Obama years, growth was an abysmal 1.9 percent, which the Congressional Budget Office now says is the course we are on for decades to come.

Nonsense. This 1.9 percent growth scenario is one-third below the historical average for the U.S. economy from 1950 to 2000, which was 3.4 percent. Professor Robert Barro of Harvard told the House Small Business Committee recently that the average annual growth rate for the last century has been about 3.2 percent.

If we can achieve 3.4 percent growth for the coming decade, then we lower the deficit by roughly \$4.5 trillion over the decade. That is the best “pay for” I've ever heard. As JFK used to put it, we need a budget that is balanced through growth and prosperity.

A 3 percent-plus growth rate also means that the debt as a share of GDP goes down every year and eventually falls to its lowest level since the 1970s. The trillions of dollars of unfunded liabilities in Medicare and Social Security wouldn't disappear entirely, but they would become very manageable to deal with.

Economists such as former Treasury Secretary Larry Summers say that 3 percent growth isn't possible anymore. This “limits to growth” tale has been told many times before and has always been wrong. It was wrong in the 1930s; it was wrong after World War II; it was wrong in the late 1970s.

Here are three big steps to get back on a higher-growth path:

1) Get the tax cut signed into law. The Tax Foundation and others predict that tax reform alone would raise wages and business investment by about 9 percent over just the next decade. Any short-term revenue losses from the tax cuts would be inconsequential compared with the positive fiscal benefits over five, 10 and 20 years on a higher-growth trajectory.

2) Admit far more high-skilled immigrants to offset the retiring baby boomers. This will prevent the labor force from shrinking.

3) Impose work requirements on all able-bodied people receiving aid from welfare programs. We now spend \$1 trillion a year to pay people not to work, and we wonder why the labor-force participation rate keeps shrinking. Workfare will bring millions more idle Americans off the sidelines and into the workforce — and it will improve their lives.

As for the deficit, Daniel Mitchell of the Cato Institute points out that we can have the Trump tax cut and a balanced budget within a decade by simply holding total government spending to 2 percent growth each year. If we can get on a path of 3 to 4 percent GDP growth, we'll balance even faster.

To paraphrase the Beatles: All you need is growth.