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‘All you need is growth’

Real and sustained growth will lower the deficit

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As sure as the cuckoo clock chimes at midnight, the left is bloviating that the Trump 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 a 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.

Last week Steve Forbes, Larry Kudlow, Arthur Laffer and I signed a statement urging President Trump to drop revenue neutrality because it is a trap. We called for a net tax cut. Kudos to Mr. Trump for getting this right.

The point of the Trump tax cut is to get more jobs, higher wages, and growth. America needs real and sustained growth of 3 or 4 percent — up from the abysmal 1.9 percent growth of the Obama years — 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 of 3.4 percent from 1950 — 2000. 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. See chart.

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 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 like former Treasury Secretary Larry Summers say that 3 percent growth isn't possible anymore. This "limits to growth" tale has been predicted many times before and has always been wrong. It was wrong in the 1930s, it was wrong after World War II and 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 to the positive fiscal benefits over 5, 10 and 20 years from a higher growth trajectory.

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

3) Impose work requirements on all able-bodied recipients for every welfare program. 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 faster GDP we get to balance even faster.

To paraphrase the Beatles: All you need is growth.