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The 4 percent-plus solution

A plan for strong economic growth is the ticket to the White House

By Richard W. Rahn

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Of those running for president, who will give this speech?

"Ladies and Gentlemen, my administration will implement a series of economic policies to cause the economy to grow at an average rate of 4 percent or more a year. Growth of 4 percent-plus per year will create jobs at a faster rate than the growth in the labor force and provide hope for those who had despaired of finding a good job again. At a growth rate of a little over 4 percent per year, real incomes for all of our citizens will double in only 17 years. (At the current rate of economic growth of a little over 2 percent a year, it will take more than 30 years for real incomes to double.) We can do better — and we have done better in our recent past.

"During the last six years of the Reagan administration — after the deep recession at the beginning of his term — real economic growth averaged a little over 4.5 percent per year. Likewise, during the last six years of the Clinton administration, real economic growth averaged a little over 4 percent per year.

"Some have argued that the little over 2 percent per year growth that we have been experiencing since the end of the Great Recession in 2009 is the 'new normal.' I don't believe there is anything normal about it. The poor performance is due to bad policies, not something written in the stars. My administration will achieve the 4 percent-plus by following the best practices that have been shown to work in other countries.

"As recently as the year 2000, the United States was ranked as having the second-freest economy in the world; now it ranks No. 12, according to the annual Economic Freedom of the World Index published by the Fraser Institute in Canada and the Cato Institute in the United States. You may ask, 'Why does economic freedom matter?' There is a very high correlation between economic freedom and income per capita. The quartile of the countries that are most free now have an average per capita income of about $40,000 per year, while the quartile that are the least free only have a per capita income of a little over $6,000 per year. Freer countries tend to grow faster than the less free. Freer countries treat their poorest citizens far better, with the poorest 10 percent in those countries having a per capita income of almost $12,000 per year, while the poorest 10 percent in the least free countries have average incomes of only about $1,400 per year. Life expectancy is much higher in the freest countries, and both political rights and civil liberties are highly positively correlated with economic freedom.

"A key component of economic freedom is a legal system that protects persons and their rightfully acquired property. The United States has fallen from No. 1 in 1980 to No. 28 today. Finland, New Zealand, Norway, Singapore and Switzerland now rank in the top five. My administration will make the necessary restorations in the rule of law to bring us back into the top five.

"It has been well known for more than two centuries that the ability to trade freely across borders greatly enhances economic well-being for the vast majority. Back in 1980, the United States was the seventh-freest trade country in the world; but over the last 35 years, other countries have moved far faster to remove tariff and non-tariff barriers to trade. So now, the United States is barely in the top 20 percent of countries, while places like Hong Kong, Ireland, New Zealand, Singapore and even the United Kingdom are in the top five.

"Excessive regulation, particularly financial regulation, is the Achilles heel of many modern economies, including the United States. Hong Kong, Singapore, New Zealand and Switzerland prove that it is possible to have a non-corrupt and sound economic system without excessive financial and business regulation.

"Finally, size of government matters. When an economy spends more than 25 percent of its gross domestic product on government, economic growth slows; and when tax rates are higher than 20 percent over the long run, both economic growth and government revenue suffer. Hong Kong and Singapore prove that it is possible to have a wealthy and civil society with adequate safety nets for those who need them without having big government or high tax rates. Chile, Switzerland and many others have shown that the growth in entitlement spending can be limited without shredding the social safety net.

"My administration will adopt the best practices of those countries that score high on the individual elements of economic freedom, and by doing so, average economic growth of more than 4 percent per year is almost certain. Such growth will result in full employment with higher real wages and more economic opportunity for all citizens, particularly those who have had a smaller share of the economic pie."

To date, no presidential candidate has presented such a clearly stated goal and method by which to achieve it. So this is my gift to the candidate who really wants to win.

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