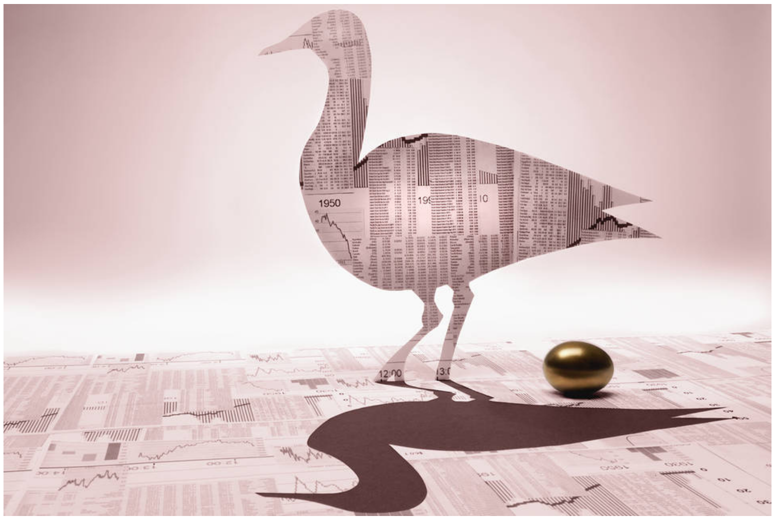
What's Wrong With the Golden Goose?

‘Secular stagnation’ isn't to blame for lousy U.S. growth rates. Obama's higher taxes and regulatory assault are.



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By PHIL GRAMM
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Since the Obama recovery began in the second quarter of 2009, public and private projections of economic growth have consistently overestimated actual performance. Six years later, projections of prosperity being just around the corner have given way to a debate over whether the U.S. has fallen into “secular stagnation,” a fancy phrase for the chronic low growth seen in much of Europe.

This is just another in a long line of excuses. America's historic ability to outperform Europe is well documented; we call it American exceptionalism. It has always been based on the fact that the U.S has had better, more market-driven economic policies and our economy therefore worked better. But, as the U.S. economy is Europeanized through higher taxes and greater regulatory burdens, American exceptionalism is fading away, taking economic growth with it.

How bad is the Obama recovery? Compared with the average postwar recovery, the economy in the past six years has created 12.1 million fewer jobs and $6,175 less income on average for every man, woman and child in the country. Had this recovery been as strong as previous postwar recoveries, some 1.6 million more Americans would have been lifted out of poverty and middle-income families would have a stunning $11,629 more annual income. At the present rate of growth in per capita GDP, it will take another 31 years for this recovery to match the per capita income growth already achieved at this point in previous postwar recoveries.

When the recession ended, the Federal Reserve projected future real GDP growth would average between 3.8% and 5% in 2011-14. Based on America's past economic resilience, these projections were well within the norm for a postwar recovery. Even though the economy never came close to those projections in 2011-13, the Fed continued to predict a strong recovery, projecting a 2014 growth rate in excess of 4%. Yet the economy underperformed for the sixth year in a row, growing at only 2.4%.

Implicit in these projections and in the headlines of most economic news stories—which to this day blame cold winters, wet springs, strikes, hiccups and blips for America's failed recovery—is the belief that there has been no fundamental change in the U.S. economy. Underlying this belief is the assumption that either the economic policies of the Obama administration are not fundamentally different from the policies America has followed in the postwar period or that economic policy doesn't really matter.

And yet we know that the Obama program represents the most dramatic change in U.S. economic policy in over three-quarters of a century. We also know from the experience of our individual states and the historic performance of other nations that policy choices have profound effects on economic outcomes.

The literature on economic development shows that U.S. states and nations tend to prosper when tax rates are low, regulatory burden is restrained by the rule of law, government debt is limited, labor markets are flexible and capital markets are dominated by private decision making. While many other factors are important, economists generally agree on these fundamental conditions.

As measured by virtually every economic policy known historically to promote growth, the structure of the U.S. economy is less conducive to growth today than it was when Mr. Obama became president in 2009.

Marginal tax rates on ordinary income are up 24%, a burden that falls directly on small businesses. Tax rates on capital gains and dividends are up 59%, and the estate-tax rate is up 14%. While tax reform has languished in the U.S., other nations have cut corporate tax rates. The U.S. now has the highest corporate rate in the world and the most punitive treatment of foreign earnings.

Meanwhile, federal debt held by the public has doubled, so a return of interest rates to their postwar norms, roughly 5% on a five-year Treasury note, will send the cost of servicing the debt up by $439 billion, almost doubling the current deficit.

Large banks, under aggressive interpretation of the 2010 Dodd-Frank financial law, are regulated as if they were public utilities. Federal bureaucrats are embedded in their executive offices like political officers in the old Soviet Union. Across the financial sector the rule of law is in tatters as tens of billions of dollars are extorted from large banks in legal settlements; insurance companies and money managers are subject to regulations set by international bodies; and the Consumer Financial Protection Bureau, formed in 2011, faces few checks, balances or restraints.

With ObamaCare the government now effectively controls the health-care market—one seventh of the economy. The administration's anti-carbon policies hamstring the energy market, distort investment and lower efficiency. Despite the extraordinary bounty that has flowed to America from an unfettered Internet, Mr. Obama has dictated that the Web be regulated as a 1930s monopoly, bringing the cold dead hand of government down on what was once called the "new economy."

During Mr. Obama's presidency, the number of Americans receiving food stamps has risen by two-thirds and the number of people drawing disability insurance is up more than 20%. Not surprisingly, labor-force participation has plummeted. Crony capitalism and artificially low interest rates have distorted the capital markets, misallocating capital, overpricing assets and underpricing debt.

Despite the largest fiscal stimulus program in history and the most expansive monetary policy in more than 150 years, the U.S. economy is underperforming today because we have bad economic policies. America succeeded in the Reagan and post-Reagan era because of good economic policies. Economic policies have consequences.

With better economic policies America was like the fabled farmer with the goose that laid golden eggs. He kept the pond clean and full, he erected a nice coop, threw out corn for the goose and every day the goose laid a golden egg. Mr. Obama has drained the pond, burned down the coop and let the dogs loose to chase the goose around the barnyard. Now that the goose has stopped laying golden eggs, the administration's apologists—arguing that we are now in "secular stagnation"—add insult to injury by suggesting that something is wrong with the goose.

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