

Current Events



Restoring America's Growth

THE U.S. HAS JUST COMPLETED A "RACE TO THE TOP," WITH states competing for federal funds based on their education reforms. A similar process happens globally every year. Countries compete with each other for hundreds of billions of dollars in jobs and market capital based on their structural reforms.

The U.S. is losing this competition, which has serious consequences for future innovation and living standards. While we remain the world's richest country, with the most exports of goods and services, the most production and the highest GDP, our lead is dwindling rapidly.

Investors keep a scorecard. They want to invest where governments control their spending, investments earn solid after-tax profits, living standards rise rapidly along with consumption, labor is educated and flexible, and regulation is transparent, not secretive. America's grades have been falling across the board, driving capital away.

Many countries have improved their economic structures with dramatic results: Brazil in 2003, Russia in 2000 and China in 1993. The U.S. in 1981–83 went from a high-inflation, high-tax economic basket case to a much stronger competitor, able once again to attract capital from locals and foreigners. The issue is whether we can perform an encore. The 2010 election fight is about uprooting Washington's antigrowth mind-set regarding the role of federal government. If postelection Washington finds the backbone and procedures to spend less and return power to the people, their businesses and states, capital will rush back into the U.S., providing the jobs and investment needed to compete globally.

While some are still arguing that more deficit spending is needed to help people consume and to subsidize small business, the reality is that massive federal spending and control discourage private-sector investment. And the country simply can't afford it.

The latest \$26 billion "aid to the states" law was passed on the pretense that it was deficit neutral, the same ruse used to win votes for the unpopular health care reform. But the reality is that Washington was deficit spending, promising to pay for it later with implausible cuts in food stamps for the poor starting in 2014. The market's reaction to such chicanery is understandable. August was a bad month for U.S. equities, while gold and many foreign equity markets rose.

Many of the steps needed to strengthen the economy, create jobs and attract global capital are clear.

• **Cut wasteful federal spending.** With \$3.8 trillion to choose from, the starting point should be such favorite pets as earmarks and the \$6 billion annual ethanol subsidy, Iowa's litmus test for presidential aspirants. Cuts like this would likely pay America 10-

to-1 through capital inflows as the U.S. improves its scorecard.

• **Extend current tax rates.** This would encourage profit and new-business innovation, adding investment and jobs.

• **Corporate tax reform.** The U.S. has the second-highest corporate tax rate in the developed world. A lower rate on a broader base would significantly improve our scorecard.

• **Small-business credit.** Washington has erected massive regulatory systems to channel capital from banks to Washington instead of to small businesses. Savers lose through the low interest rates paid by Treasury, banks lose in terms of lending skills and profit, and the nation loses when small businesses don't hire.

• **Sound dollar.** A hallmark of structural reform is a government's resolve to provide sound money. Foreign currency markets—now \$4 trillion per day—trade on instability. But American workers need real money in order to save and invest with confidence. When citizens can't trust their currency, chaos ensues.

• **Pension reform.** The federal government has substantial influence on state and local pension systems through accounting rules, taxpayer subsidies and open-ended guarantees. State and local governments should be pushed to shift toward a federal-style 401(k) pension system (but without grandfathering politicians into lifetime pensions as Congress did for itself).

The list of necessary progrowth reforms is long. The current U.S. scorecard gives us near-fatal demerits for our litigiousness; for the material risk of card check (taking away from workers the secret ballot on union issues); and for the Jones Act, which raises U.S. shipping costs and slowed oil cleanup efforts in the Gulf of Mexico.

As it expands its power Washington has not only overspent and overpromised but also over-controlled. In its legislative tomes, Washington routinely slips in "unfunded mandates"—expensive tasks dictated by Washington politicians and assigned to companies, states and local governments, forcing higher taxes and crowding out other spending and investment.

In its rush to pass weak health care and financial reforms Congress has created a hornet's nest of antigrowth provisions. Many will need to be scrapped, repealed, defunded, amended or found unconstitutional. Not to mention that Fannie Mae, Freddie Mac and the Federal Housing Administration are madly losing money without achieving a housing recovery or a fully functioning mortgage market.

All of the reforms will take hard work and a Congress resolved to reducing its own power, but the payoff will be huge: a U.S. scorecard that again spells growth, jobs and competitiveness. **F**



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