Testimony

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On

The Intrinsic Value of Economic Growth

Mr. Chairman.

Thank you for the opportunity to testify before the Subcommittee on Economic Growth, Tax, and Capital Access on the intrinsic value of growth, and why I believe it is the single most important element to fixing many of the economic problems we currently face. My name is Stephen Moore and I am an economist at the Heritage Foundation. Neither I nor the Heritage Foundation receive any federal funding.

Over the last 8 years, economic growth has been stagnate. Wages are, for the most part flat, and many on the left believe our days of sustainable 3 percent growth are over. *CNN Money* recently asked leading economists about President Trump's desire to see 4 percent growth, and they found a strong consensus that it's "impossible, or at least highly unlikely." They say there aren't enough workers with the retirement of the baby boomers and that automation means fewer jobs available. Many point to the widely cited 2016 San Francisco Fed study which argues that the "new normal" is 1.5 to 1.75% GDP growth — or less than half the post-World War II average pace of progress.[1]

In addition, The CBO projects that America will see an average 1.9% annual growth over the next 30 years.[2] This represents a massive downgrade from historical performance. Between 1974 and 2001, average growth was 3.3%. An extra percentage point makes a world of difference.[3]

But when it comes to these devastating growth predictions, throughout modern history, they are outliers, and history sides with growth. Consider President Kennedy's call to cut taxes at the New York Economic Club to spur growth. After they were implements, the economy grew by 4.5 percent, and unemployment levels sank. The same is true for Reagan. After cutting taxes, the economy expanded by 4 percent from 1983-1989, putting to shame those who doubted 4 percent growth was possible.

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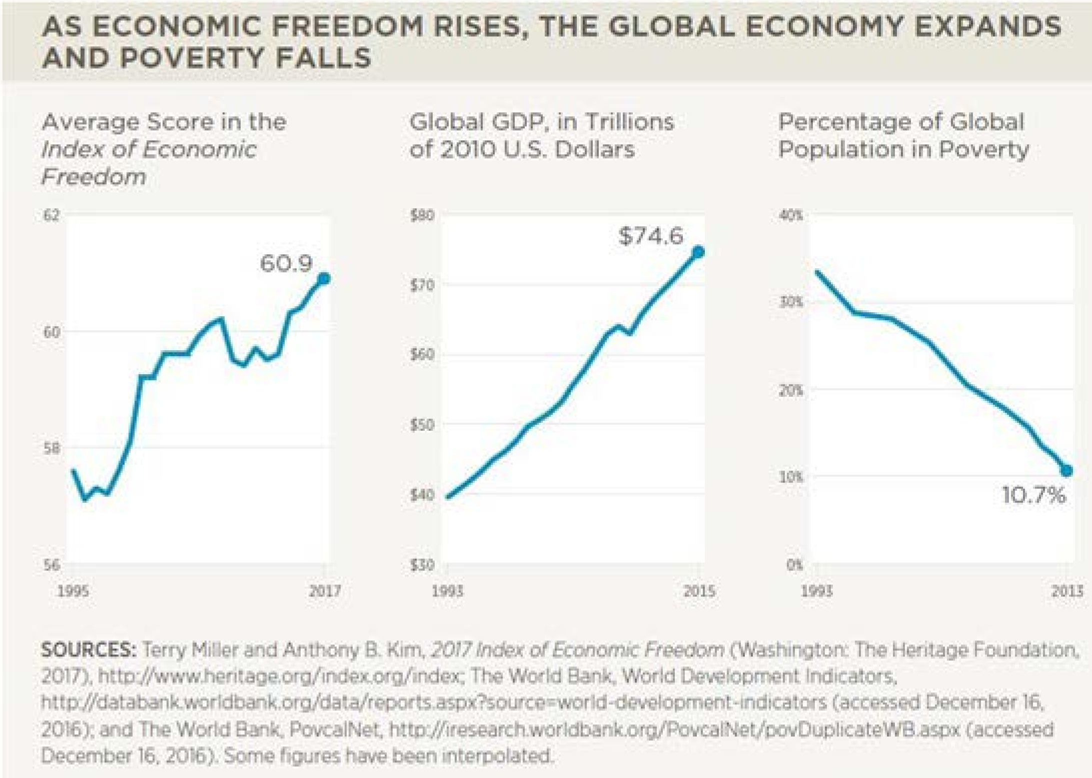
[1] http://www.frbsf.org/economic-research/publications/economic-letter/2016/october/new-normal-for-gdp-growth/
[2] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52480-ltbo.pdf, page 8
[3] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52480-ltbo.pdf, page 9

Chart 1



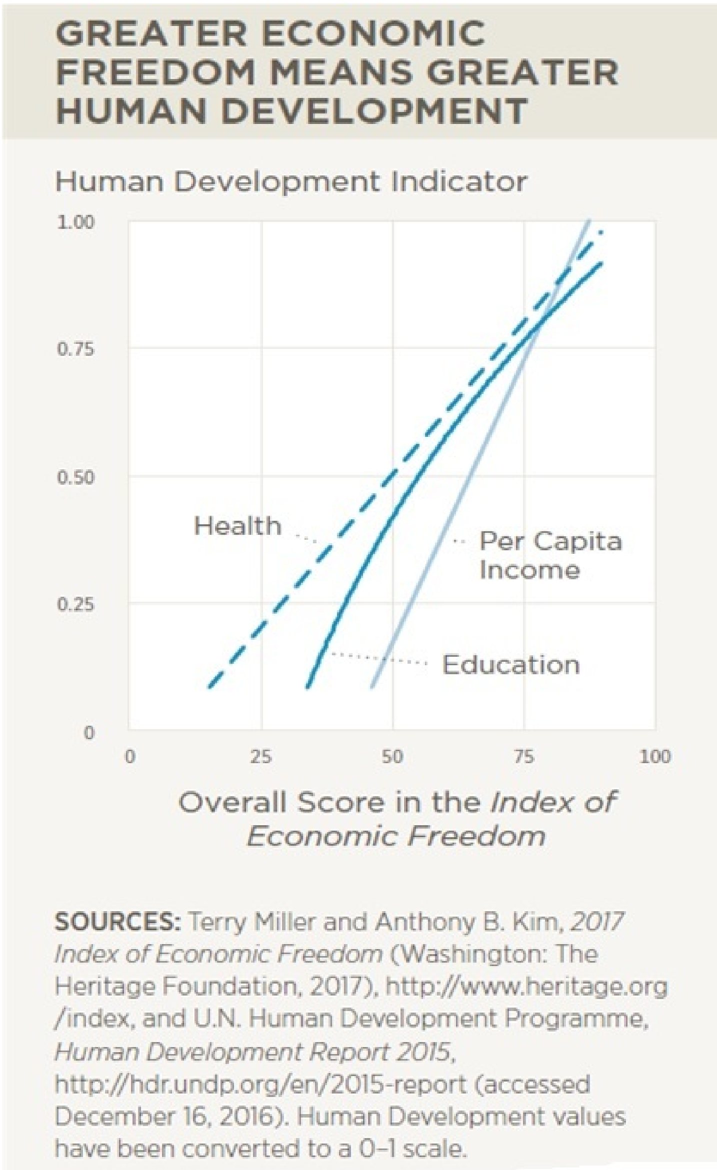
According to the Index for Economic Freedom and Opportunity published by The Heritage Foundation, “People in economically free societies have longer lives. They have better health and access to more effective education. They are able to be better stewards of the environment, and they push forward the frontiers of human achievement in science and technology through greater innovation.” [4] I believe that the hope of human achievement, and policies that allow for us to produce and grow, free of government intervention will break all expert predictions. This is all possible is Congress enacts policies that reduce regulation, lower taxes, and empower small business expand beyond what we thought possible.

Take the miracle of Fracking. Over the last decade, America blew away expert predictions that we were running out of fossil fuels. Because of private sector ingenuity, America is on its way to becoming a dominant global energy producer. Thanks to fracking and horizontal drilling technologies, we are producing more natural gas than ever before. Natural gas is a wonder fuel: it

[4] http://www.heritage.org/index/book/chapter-1

is cheap. It is abundant. America has more of it than anyone else — we have several hundred years' worth of natural gas. And it is clean burning. It will only be stifled by government intervention, and regulations. (See chart 2)

Chart 2

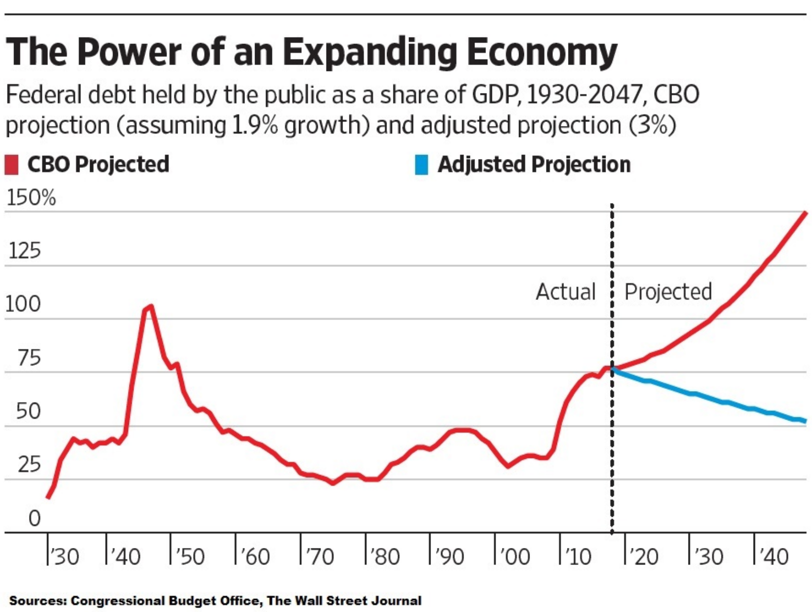


The recent CBO report paints a very bleak picture of what our economy will look like with a 1.9 percent growth rate over the next 30 years. But consider what happens to the CBO's numbers assuming 3% annual growth. By 2040 the economy would expand not to $29.9 trillion, but to $38.3 trillion, according to an analysis by Research Affiliates, a California investment firm. That's an additional output of $8.4 trillion.

By 2047, the economy would grow to $47.1 trillion, almost $13 trillion more than the CBO's baseline estimate. That would spin off new tax revenue to Washington of about $2.5 trillion each year. That money ought to be more than enough to pay all the bills and cover most of the unfunded costs of Social Security and Medicare.

Growth of 3% would stop the debt-to-GDP ratio from skyrocketing. Instead it would start to fall almost immediately, eventually to about 50%, because the economy would be so much larger. Congress and the White House ought to understand that what matters most for heading off a fiscal crisis is making sure that the economy grows faster than the government. No other debt-reduction policy—certainly not a tax increase—comes close to having the fiscal effect that sustained prosperity does. (See Chart 3)

Chart 3



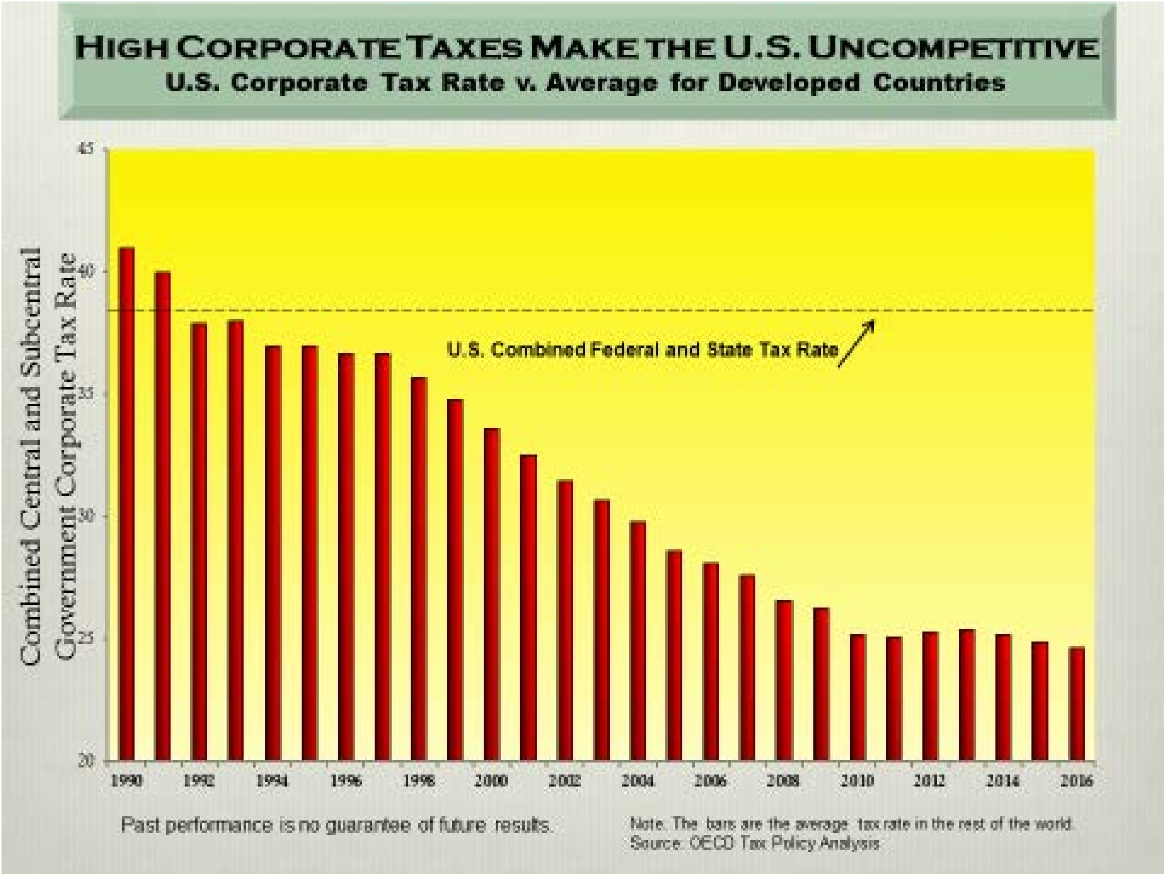
As discussed above, the greatest thing that government can do to encourage growth is to get out of the way and let business flourish. I propose a permanent reduction in the corporate/business tax rate from 35 percent to 15 percent. This should be accompanied by expensing for business capital purchases.

Apple and GE might bring back tens of billions of dollars for assembly plants and research centers on these shores. The current U.S. Rate of 35 percent (federal) is the highest of all the nations we compete with. The rest of the world is at a rate closer to 25 percent with some nations like Ireland as low as 12.5 percent. Let’s go from the highest rate in the world to one of the lowest and jobs and capital flows will reverse course and rush back the United States.

We have seen companies like Burger King, Medtronics. Pfizer, and dozens more leave the U.S. in search of lower tax rates. In January Johnson Controls announced a merger and we could wind up with yet another American company leaving to reside in foreign nations.

Liberals like to pretend that the U.S. tax rates aren’t chasing out businesses and jobs, but then why are all the nations we compete with slashing their rates? See chart 4. The international average has come down from almost 40% in 1990 to 25% today. For two and a half decades the U.S. rates haven’t budged, while the rest of the world keeps chopping. We’re like a 6th grader who stops growing and then goes out and tries to play competitive basketball with 20 year olds over six feet tall.

Chart 4



In sum, Congress should get ahead of these dire growth predictions by the CBO and pass reforms that encourage small business to flourish. Reforms like the ones above will increase revenues, and potentially spur growth unlike anything we've seen.

Finally, Mr. Chairman, I am very excited about the potential to see small business grow under your leadership here. I know you have for years expressed a commitment to fundamental tax reform and I believe you can get this done in the next couple of years. The last time tax reform happened was 30 years ago and Ronald Reagan helped clean out the stables of the tax code and chop the top tax rate to 28 percent with strong bi-partisan support. This can happen again with your leadership and vision and we at Heritage wish to continue to help every step of the way.