ROADMAP FOR THE 21ST CENTURY

NATIONAL TAX-LIMITATION COMMITTEE | THE HEARTLAND INSTITUTE
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Introduction

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(Editor's note: Some of the text in this introduction is based on a previous publication written by Peter Ferrara and published by The Heartland Institute.[1]*)*

The Roadmap for the 21st Century Project is a collaboration of free-market experts nationwide reflecting their views on the major public policy choices facing the nation, particularly those affecting economic growth and prosperity. Formal co-sponsors of the project are the National Tax Limitation Committee and Foundation and The Heartland Institute, with supporting roles played by Americans for Tax Reform and the American Legislative Exchange Council. Deliberations for the project's policy reports included valuable input from representatives of the Cato Institute, Heritage Foundation, American Enterprise Institute, Committee to Unleash Prosperity, National Center for Policy Analysis, Goodman Institute, Galen Institute, and other organizations.

We are grateful to members of the House Republican Task Forces, appointed by House Speaker Paul Ryan earlier this year, for their input. The reports produced for those task forces are discussed in the reports of this project, and we deliberately chose to cover the same subject areas of tax reform, health reform (repeal and replace Obamacare), regulation, welfare reform and poverty, and national defense.

No claim is made that all free-market experts hold the views expressed by the reports in this series. However, we do believe the reports reflect a rough consensus by the best thinkers and doers in the free-market movement, particularly those who seek to restore booming American economic growth.

America's Economic Growth Crisis

During an August 7, 2015 interview on CNBC, Jason Furman, chairman of President Barack Obama's Council of Economic Advisors (CEA), was asked whether the Obama administration should be targeting long-term real economic growth of 4 percent. He responded, "I haven't seen any serious economist say that is within the realm of possibility."

The 4 percent economic growth target is a sensitive subject for the chairman of Obama's CEA. Economic growth under Obama has averaged less than 2 percent for the seven years he has been in office (the recession ended in June 2009, according to the National Bureau of Economic Research). Obama's economic growth record is the worst of any president since the Great Depression, worse even than Jimmy Carter. The difference between 4 percent annual growth and 2 percent, compounded over decades, is the difference between America and Argentina: the leading country in the developed world versus a third world country.

Furman's August 7 comment was particularly bizarre because on June 19, Larry Kudlow explained

[1] Peter J. Ferrara, *Power to the People: The New Road to Freedom and Prosperity for the Poor, Seniors, and Those Most in Need of the World's Best Health Care* (Arlington Heights, IL: The Heartland Institute, 2015).

the postwar precedents for the 4 percent real growth target in detail in *National Review Online*:[2]

- "Following the Kennedy tax cuts, the economy averaged 5.2 percent yearly growth between 1963 and 1969."
- "After the Reagan tax rates fully went into effect, alongside Paul Volcker's conquering of inflation, the economy grew at 4.5 percent annually between 1982 and 1989," Kudlow further reported.
- "And between 1994 and 1999, the Bill Clinton/Newt Gingrich economy increased 4.3 percent annually, after welfare reform, NAFTA trade, and cap-gains tax relief," he added.

Kudlow also noted that during the *60-year* period from 1947 to 2007, U.S. economic growth averaged 3.4 percent. Economic historians Simon Kuznets and John Kendrick constructed the record of American economic growth since before 1900 and found long-run real GDP growth in America has averaged 3.5 percent.[3] By focusing federal policies on those that are pro-growth, we can reach 4 percent easily.[4]

Reagan campaigned explicitly on a four-point economic recovery program in 1980, which he then implemented once elected. Those points were:

1) **slash marginal income tax rates** to provide incentives for growth,
2) **deregulation**, to unleash private-sector growth.
3) **cut federal spending**, to stop draining funds from the private sector, and
4) stick to **monetary policies that maintain a stable dollar**.

Those policies produced Reagan's 4.5 percent annual growth. What has Obama done? Just the opposite. Obama's *anti-growth* policies produced less than half the growth produced by Reagan's pro-growth policies, and the worst economic growth of *any* president since the Great Depression.

Furman added on CNBC, "The debate we should be having is not targets no economist thinks we can hit but are we doing everything we possibly can to strengthen our economy." But the Obama administration and its supporters have *not* been doing everything they can to strengthen our economy. Instead, they have:

- Cancelled the Keystone Pipeline, assaulted coal production, and minimized oil and gas production on federal lands and waters.
- Raised marginal tax rates on capital gains by nearly 60 percent (to the third highest among industrialized nations), on dividends by nearly 60 percent, and for Medicare payroll taxes by more than 60 percent.
- Raised top marginal income tax rates primarily on savers, investors, small businesses, and top professionals by more than 20 percent.
- Maintained the highest top marginal corporate tax rate in the industrialized world.
- Imposed EPA regulations that will shut down booming American energy production and cause electricity rates and energy costs to necessarily skyrocket.
- Imposed health insurance employer mandate regulations that force employers to reduce millions of full-time workers to part-time, 29 hours per week jobs.
- Imposed banking regulations that have forced small to medium banks and financial institutions–the institutions that finance small businesses—to close their doors.
- Maintained zero interest rate, and extended "Quantitative Easing," monetary policies that threaten the future stability of the dollar.

Furman's statements are an admission that liberals and "progressives" have no idea how to restore traditional, booming, American economic growth.

At 4 percent annual growth, GDP and national income double every 18 years. After 36 years, both will double again, for a four-fold increase. After another 18 years, (about 54 years altogether) GDP

[2] Larry Kudlow, "Jeb Is Right About 4% Economic Growth," *National Review Online*, June 19, 2015.

[3] Andrew Atkeson, Lee E. Ohanian, and William Simon, Jr., "4% Economic Growth? Yes, We Can Achieve That," *Investor's Business Daily*, September 3, 2015.

[4] *The 4% Solution: Unleashing the Economic Growth America Needs* was published in 2012 by the George W. Bush Foundation. It included 21 chapters written by 26 authors, including Economics Nobel Prize winners Robert Lucas, Vernon Smith, Edward Prescott, Gary Becker, and Myron Scholes, and other serious economists such as Robert Litan, Kevin Hassett, David Malpass, Eric Hanushek, Pia Orrenius, Peter Klein, W. Michael Cox, Steven Gjerstad, Maria Minniti, Nick Schulz, and Madeline Zavodny.

and national income will be eight times greater than today, and family incomes will have increased dramatically.

Not only would we consequently eliminate involuntary poverty, but our deficit and debt problems (as a percent of GDP) would plummet as well. We would also assure the most prosperous middle class in world history, as well as military might and national defense that cannot be questioned. As economic historian Brian Domitrovic says in his book *Econoclasts: The Rebels Who Sparked the Supply Side Revolution and Restored American Prosperity*, "The unique ability of the United States to maintain a historic rate of economic growth over the long term is what has rendered this nation the world's lone 'hyper power.'"[5]

Obama's Keynesian Economics Blunder

Obama embraced shopworn Keynesian economics, which Reagan had rightly left in the dustbin of history in 1981. Keynesian economics is the doctrine that the road to economic recovery from recession is *increased* government spending and *bigger deficits and debt*. That was the thinking behind the nearly $1 trillion so-called stimulus bill in 2009, Obama's first act in office, which failed to stimulate anything except all-time record federal spending, deficits, and debt.

As a result, in 2009, Obama's first year in office, the deficit rocketed to $1.413 *trillion*.[6] That was 9.8 percent of GDP,[7] an all-time record except for the four years of World War II, when America was fighting both Nazi Germany and Imperial Japan. That 2009 deficit was *three times the previous highest deficit in American history* of $458 billion. It was *6½ times the highest deficit during the Reagan years*, over which the *New York Times* and *Washington Post* cried mighty rivers of crocodile tears. Neither ever said a word against Obama's all-time record deficits.

That record-smashing 2009 deficit was not accidental, but deliberate as the policy means Obama thought would be the road to economic recovery. The 2009 deficit was driven by an explosion of federal spending, from 20.2 percent of GDP in 2008 – which was still within the long-term, 60-year, post-war, consensus trend line of around 20 percent of GDP – to 24.4 percent of GDP in Obama's first year in office in 2009, higher than in any year since 1945.

Obama continued to run unprecedented deficits of more than $1 trillion for three more years. In the fall of 2011, the new House Republican majority, elected in the historic, 2010 Republican landslide, rebelled against the runaway Obama spending. In the subsequent government shutdown Republicans won the Sequester, which proved highly successful in shutting down the spending spree.

The Sequester resulted in an actual decline in total nominal federal spending *for two years in a row*, for the first time in 60 years. By 2014, federal spending as a percent of GDP was restored to near its prior long-term trend, at 20.3 percent.

Nevertheless, much damage had already been done to America's national balance sheet. The national debt held by the public under Obama is now projected by his most recent budget to increase from $5.803 trillion in 2008 to $13.506 trillion by the end of this year, up by $7.7 trillion, or an increase of 133 percent. That means *President Obama has accumulated more national debt in less than two terms than all prior presidents, from George Washington to George Bush, combined.*

Worst Recovery Since the Great Depression

Obama wants his economic policies to be judged by whether the economy is better today than it was at the depth of the recession when he entered office.

But that is the wrong measure. The right one is to compare Obama's recovery with other recoveries from other recessions under previous presidents. By that measure, Obamanomics, with its Keynesian foundation, produced the *worst* recovery from a recession since the Great Depression, as measured by economic growth, job creation, unemployment, and wage and income growth.

When Obama came into office, the recession, which started in December 2007, was already nearly 13 months old.[8] There were 11 other recessions since

[5] Brian Domitrovic, *Econoclasts: The Rebels Who Sparked the Supply Side Revolution and Restored American Prosperity* (Wilmington, DE: Intercollegiate Studies Institute, 2009), p. 6.

[6] *Ibid.*

[7] *Ibid.*, Table 1.2.

[8] U.S. Business Cycle Expansions and Contractions, National Bureau of Economic Research, http://www.nber.org/cycles/cyclesmain.html

the Great Depression.[9] The average duration of those recessions was 10 months.[10] So the recovery was already overdue when he came into office. All he really had to do was stay out of the way. But he didn't. He took the country on a Keynesian economics "bender," which only *delayed* rather than promoted recovery, just as it did in the 1930s.

The recession officially ended in June 2009, after 18 months, according to the National Bureau of Economic Research (NBER).[11] Traditionally, the worse the recession, the stronger the recovery. As Atkeson, *et al*. wrote in *Investor's Business Daily*,

> Following every historical economic shock, including the tremendous dislocations of the Great Depression and World War II, every postwar recession, various oil shocks, and international crises, and the vast demographic changes associated with women entering the work force in greater numbers, the U.S. economy has always returned to this trend path of output. That means that the economy always grew more rapidly than average following periods of below normal economic growth, and that economic disruptions – no matter how severe – did not permanently affect U.S. prosperity. For comparison, previous severe recessions, such as the 1974–75 and 1981–82 recessions were followed by three years of real GDP growth that averaged around 5% a year, and that grew the economy back to trend.[12]

So by this metric, the economy should have come out of the recession in 2009 in an historic, long-term, economic boom. But to this day, *eight years later*, that has *still* not happened.

In the 11 previous recessions since the Great Depression, prior to the last recession, the economy recovered all jobs lost during the recession after an average of 25 months.[13] So the job effects of prior post-Depression recessions lasted an average of about two years. But under Obama's recovery, the recession's job losses were not recovered until the *77th month*, or nearly *six-and-a-half years!* Today, 108 months, or nine years, after the recession started, under Obama's recovery the economy has created only 4.7 million more jobs on net overall, during those entire nine years, nearly a decade.[14] If we had the same labor force participation rate as in the late 1990s, the unemployment rate today would be more than 10 percent.

Arguably Reagan suffered the most severe recession in post-Depression history, which resulted from stringent monetary policy that broke the back of the roaring 1970s inflation. But all the job losses from that recession were recovered by the 28th month,[15] only about a third as long as under Obama, with the recovery fueled by traditional pro-growth policies. In Reagan's recovery, 77 months after the recession started, the economy had created *13.2 million* more jobs.[16] After 108 months of the Reagan recovery, the economy had created more than *20 million more jobs!*[17]

The shameful jobs record of Obamanomics reflects the more basic reality that the economy has not been growing under Obama. In the 11 previous, post-depression recessions before Obama, the economy recovered the GDP lost during the recession within an average of five quarters.[18] But it took Obama's recovery *14 quarters*, or *three-and-a-half years*, to reach that point while the Reagan recovery took half that time. Today, 36 quarters after the 2007–09 recession started, the economy (real GDP) has grown 11.4 percent above where it was at the recession's start.[19] By sharp contrast, after 36 quarters of the Reagan recovery, the economy had boomed by more than 35 percent, more than three times as much.[20]

Even Jimmy Carter produced four times as much economic growth during his one term as Obama did during his entire first term. As Jeffrey H. Anderson, a senior fellow at the Pacific Research Institute, pointed out in *Investor's Business Daily* on

[9] *Ibid*.
[10] *Ibid*.
[11] *Ibid*.
[12] Atkeson, *et al*., *supra* note 3.
[13] "The Recession and Recovery in Perspective," Federal Reserve Bank of Minneapolis, http://www.minneapolisfed.org/publications_papers/studies/recession_perspective/index.cfm.
[14] *Ibid*.
[15] *Ibid*.
[16] *Ibid*.
[17] *Ibid*.
[18] *Ibid.*
[19] *Ibid*.
[20] *Ibid*.

January 13, 2013, real GDP growth during Obama's first term was the worst of any president *in the past 60 years!* Indeed, Obama's first-term real GDP growth was *less than half as much as the worst of any president in the previous 60 years.*

While Poverty and Inequality Boom

The slow growth and negligible job creation under Obama in turn caused middle-class incomes to decline. The Census Bureau's Current Population Survey shows real median household income declined by more than $4,500 during Obama's first term, about 8 percent. Effectively, the middle class lost the equivalent of one month's pay each year during Obama's first term.

Even if you start from when the recession ended in June 2009, the decline in median real household income was greater during Obama's first term than it was during the recession. Three-and-a-half years into the Obama recovery, real median household income had declined nearly 6 percent as compared to June 2009. That is more than twice the decline of 2.6 percent that occurred during the recession from December 2007 until June 2009. As *The Wall Street Journal* summarized in its August 25–26, 2012 weekend edition, "For household income, in other words, the Obama recovery has been worse than the Bush recession."

Today, with Obama's second term over, we *still* have not recovered all the median household income lost during the recession. That is due to stagnant or declining productivity in the Obama economy, which results from stagnant or declining capital investment in modern tools and equipment. Another contributing factor is lagging education performance, which leaves workers with insufficient human capital to keep pace with a rapidly changing economy. Reduced capital investment due to high tax rates and growing regulatory burdens has resulted in inadequate labor demand to bid wages up.

Obama has tried to make an issue out of inequality. But with declining middle-class income and booming poverty under his policies, inequality has actually gotten worse. Only the top 20 percent have gained while he has been president. Further contributing to that has been the Fed's zero interest rate policies, which feed abundant low-cost credit to the biggest, lowest risk borrowers, such as the federal government and largest corporations, while leaving inadequate credit for the riskier small and medium businesses that provide new job opportunities to the middle class and the poor.

The only thing booming under Obamanomics has been poverty, soaring at one point to the highest level in the more than 50 years that the Census Bureau has tracked poverty. During Obama's first term, the number of Americans in poverty increased by nearly 31 percent, to 49.7 million, with the poverty rate climbing by more than 30 percent to 16.1 percent, a natural result of negligible economic growth, paltry job creation, declining real wages, and the worst economic recovery since the Great Depression.

Conclusion

Reagan's four points, plus free trade, are the classic economic growth formula that has worked every time and everywhere it has been tried, throughout all of human history. Those points are:

1) Cut marginal income tax rates,
2) Deregulate key industries,
3) Cut federal spending, and
4) Adopt monetary policies that maintain a stable dollar.

Obama's worst economic recovery since the Great Depression resulted because he embraced illogical, counterproductive Keynesian economics, in place of Reagan's pro-growth, four-point economic program. By pursuing the *opposite* of every one of those four points, Obama's economic policies were consistently *anti-growth*, which is why the results of those policies have been just the opposite of Reagan's booming economic growth.

Obama's economic policies were tried by other administrations and in other countries throughout the twentieth century and failed. Central economic planning and government, rather than market, direction of the economy has not worked any better for Obama in the twenty-first century.

The remaining papers in the Roadmap for the 21st Century rigorously document all of the points made in this introduction, putting forward a complete pro-growth recovery agenda that would finally restore long overdue booming economic growth.

The road ahead is now clear. We invite all Americans who seek a more prosperous, harmonious, and secure future for their country to rally behind this plan and help us make it a reality.

About the Authors

Peter Ferrara is senior fellow for entitlement and budget policy at The Heartland Institute and a senior fellow at the Social Security Institute. He served in the White House Office of Policy Development under President Ronald Reagan and as associate deputy attorney general of the United States under President George H.W. Bush. He is a graduate of Harvard College and Harvard Law School.

Ferrara is author of several books, including *The Obamacare Disaster*, from The Heartland Institute, *President Obama's Tax Piracy*, and *America's Ticking Bankruptcy Bomb: How the Looming Debt Crisis Threatens the American Dream – and How We Can Turn the Tide Before It's Too Late*. Ferrara's latest book (Heartland Institute, 2015) is *Power to the People: The New Road to Freedom and Prosperity for the Poor, Seniors, and Those Most in Need of the World's Best Health Care.*

Lewis K. "Lew" Uhler is founder and president of the National Tax Limitation Committee, one of the nation's leading grassroots taxpayer lobbies. With offices in the Sacramento area and Washington, DC, NTLC works with the White House, members of Congress, legislators in states across the nation, and grassroots organizations to limit state and federal spending through legal restrictions and constitutional change.

Uhler has been at the forefront of the national movements for a tax limitation/balanced budget amendment to the United States Constitution and for term limits. He has written numerous articles and opinion pieces on taxes and spending. In 2010, Uhler co-authored with Erick Erickson the book *Red State Uprising: How to Take Back America*. Uhler also wrote the book *Setting Limits: Constitutional Control of Government*, with a foreword by Milton Friedman, published in 1989. Uhler speaks internationally on fiscal issues and has appeared on numerous national, regional, and local television and radio programs and has been widely quoted in the print media.

About the National Tax Limitation Committee

The National Tax Limitation Committee (NTLC) was organized in 1975. Its mission is to provide national leadership to achieve the optimal size and functions of government and promote candidates and initiatives that support these goals.

NTLC and its foundation, the National Tax Limitation Foundation (NTLF), have organized numerous conferences and seminars around the nation on critical issues. Uhler speaks regularly at the annual Conservative Political Action Conference (CPAC) in Washington, sponsored by the American Conservative Union (ACU), on whose board he served for many years. NTLC's operating philosophy has always been to partner with other groups and individuals in the accomplishment of mutual goals. NTLC and NTLF are further supported by a distinguished Board of Advisors.

For more information, visit our website at www.limittaxes.org or visit us at 1700 Eureka Road #150A, Roseville, CA 95661.

About The Heartland Institute

The Heartland Institute is a national nonprofit research and education organization based in Arlington Heights, Illinois. We are a publicly supported charitable organization and tax exempt under Section 501(c)(3) of the Internal Revenue Code.

Heartland is approximately 5,500 men and women funding a nonprofit research and education organization devoted to discovering, developing, and promoting free-market solutions to social and economic problems. We believe ideas matter, and the most important idea in human history is freedom.

Heartland has a full-time staff of 38. Joseph Bast is cofounder, president, and CEO. Dr. Herbert Walberg is chairman of the 10-member Board of Directors. Approximately 250 academics participate in the peer review of its publications and more than 200 elected officials pay annual dues to serve on its Legislative Forum.

For more information, visit our website at www.heartland.org, call 312/377-4000, or visit us at 3939 North Wilke Road, Arlington Heights, Illinois.