Do's and Don'ts for the Next U.S. President*

Now that the Democratic and Republican conventions are history, it is time to take a hard look at each candidate's policy proposals and make up our minds about which plans can best help revive strong U.S. economic and job growth. A good prescription to follow is Hippocrates' advice to aspiring physicians: "First – Do No Harm." Below are a few suggestions for restoring the bloom to the patient's cheeks.

■ Don't Raise Tax Rates on Individuals or Corporations

Taxes drive a wedge between what an individual or a business earns and what they get to keep. U.S. economic growth has been slowing for several quarters; real GDP grew by less than 1 percent over the last four quarters. U.S. tax rates on individuals and businesses are already quite high compared to other industrial countries. For example, the top U.S. marginal tax rate for individuals is 41.3 percent compared to an average of 40 percent in 29 other industrial countries, according to the OECD. The U.S. corporate income tax rate is 35 percent compared to an average of only 24 percent in other OECD countries.

The five tax cuts enacted between 2001 and 2004 were responsible for much of the U.S. economic rebound from the post 9-11 terrorist attacks, hurricanes, and sharp energy price increases that buffeted our economy, according to research by Dr. Allen Sinai, chief global economist and president of Decision Economics, Inc. The tax cuts, which averaged 2.5 percent of GDP at their peak in 2004, raised after-tax disposable income and increased consumption and investment (see http://www.accf.org/pdf/Sinai-PR.pdf).

Raising tax rates on some individuals or corporations in order to pay for tax cuts for others is likely to be self-defeating if stimulating an economic rebound is the goal, analogous to attaching leeches to an already anemic patient.

■ Do Promote U.S. Energy Supplies and Avoid Unrealistic Climate Change Policies

U.S. economic growth and energy use go hand in hand; each 1 percent increase in U.S. GDP is accompanied by a 0.3 increase in energy use. The U.S. Department of Energy projects that the U.S. will need approximately 30 percent more energy by 2030 to accommodate our growing population, higher levels of employment, and economic activity. One way to promote more of the energy investments we need is to provide faster write-offs for investment. An analysis by Ernst&Young shows that depreciation allowances for energy investments in the U.S. compare very poorly with those of our major trading partners. Improving our tax code by speeding up depreciation and, for investor-owned energy providers, reducing corporate tax rates and allowing comparable incentives for non-profit energy providers would have a positive impact on energy supplies while slowing the growth of U.S. greenhouse gas emissions. Allowing increased access to both off-shore and on-shore areas for drilling and exploration would also have a positive impact on U.S. energy supplies.

Climate change is a global problem and meaningful reductions in greenhouse gas emissions will require the participation of developing and industrializing countries such as India, China, Brazil, Indonesia, and others whose emissions are growing rapidly. Tight mandatory emission reduction targets in the U.S. could significantly reduce U.S. GDP and employment growth and sharply raise electricity and other energy prices. For example, an analysis by the ACCF and the National Association of Manufacturers shows that the Lieberman-Warner Climate Security Act (S. 2191) could reduce GDP levels by 1.6 percent by 2014, cut net job growth by 1.2 percent (even after accounting for "green" job increases), and raise residential electricity prices by 14 percent (see full report at http://www.accf.org/pdf/NAM/fullstudy031208.pdf). While reducing U.S. GHG growth is a worthwhile goal, it is important to realize that without international participation, U.S. sacrifices in terms of higher energy prices and reduction in energy use will slow our own economy with no meaningful reduction in global GHG emissions.

■ Do Promote Education Reform

Maintaining the competitive position of the U.S. in the global economy requires strengthening primary and secondary education and raising proficiency standards. One of the issues raised most frequently by U.S. employers is that many high school graduates are not able to read very well or do relatively simple math. The shortcomings of our educational system undermine the productivity growth needed to increase U.S. living standards and make it harder for U.S. companies to compete in the global marketplace. A recent survey by the Program for International Student Assessment revealed that U.S. high school students ranked 17th out of 30 OECD countries in science and 24th in math. Education reform is a complex issue but better trained and better paid teachers and more stringent standards for promotion to the next grade would be useful starting points.

■ Do Promote Broader Health Care Coverage

Many pundits conclude that the U.S. health care system is unnecessarily expensive and unfair. About 45.7 million people are not covered by public or private health insurance, according to a recent U.S. Census Bureau report. While those people who have insurance (253.4 million) are, for the most part, satisfied with their plans, the gap between those with and those without health insurance is large. Improving health care coverage for Americans is cited as a priority in most recent polls, but making the changes needed will require patience and bipartisanship. An important goal of any health insurance expansion should be to avoid adding new taxes and regulations on business to pay for the expanded coverage. Such an approach would merely make it harder for U.S. companies to maintain or expand employment.

Conclusion

Four domestic issues should be high priorities for the next U.S. President: Keeping tax rates low to encourage an economic rebound; enhancing U.S. energy supplies while avoiding unrealistic GHG policies; improving U.S. secondary education; and expanding basic health care coverage.

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