THE WALL STREET JOURNAL.

Can This Economy Be Saved?

Yes, but government has to reverse its destructive policies.

June 23, 2011
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America's economy is in the doldrums again. Economic growth is weak—just 1.8% a year in the last quarter. Government spending is increasing—to a projected 25.3% of gross domestic product this year from 20.7% in 2008—while revenues are down to 14.4% of GDP from 17.5% in 2008.

Our nation obviously needs much stronger economic growth, and we need it now. To create new jobs and get America growing again, we have to unleash the economic engine of the business community, and that requires lower tax rates, less regulation and uncertainty, free trade rather than protectionism, and lower energy costs.

America's corporate income tax rates have remained over 39% for the past 12 years, while the average for the developed countries in the Organization for Economic Cooperation and Development declined to 26.3% from 34.8%.

The good news is that there is some basic agreement between the Obama administration and the Republican House majority that business tax rates need to be reduced. As the president said in his most recent State of the Union Address: "I'm asking Democrats and Republicans to simplify the system. Get rid of the loopholes. Level the playing field. And use the savings to lower the corporate tax rate for the first time in 25 years—without adding to our deficit. It can be done."

The unanswered questions are whether the Obama administration is more focused on higher tax revenues than business expansions, and whether the Republicans are more focused on expanding jobs than raising revenues. We may well see Democratic corporate tax reform as a mix of lowering rates offset by a broadening of the tax base so that businesses actually pay more to the government, while Republicans may look at a lowering of tax rates and a broadening of the base as a way to reduce taxes overall to spur business growth and overall economic growth.

The tax-reform goals should be to lower rates so that we can be competitive with other nations, and to increase economic efficiency by removing many of the special exemptions, deductions and credits by which Washington has historically tried to influence business decisions. Such reform will lead to more jobs and more economic growth.

John Engler, a former governor of Michigan, has concluded that "American corporations today face a tax burden far higher that corporations headquartered in what are traditionally viewed as high-tax countries. Our companies also struggle under an outdated 'worldwide' tax system that taxes companies twice and further erodes U.S. competitiveness."

Perhaps the best recommendations come from the Bowles-Simpson commission, for they show what needs to be done and what should be done: First, replace the multiple business tax brackets with a single corporate tax rate between 23% and 29%. Then eliminate the special subsidies for different industries, which would "create an even playing field for all businesses instead of artificially picking winners and losers." That would range from elimination of ethanol subsidies—which the Senate actually voted for earlier this month—to getting rid of agriculture and "green energy" subsidies.

Three other areas need action as well. Most important are the free-trade agreements with Colombia, South Korea and Panama. Labor leaders simply don't want free trade, and President Obama is apparently in agreement with them and so not pressing the agreements. Unfortunately as Republican Senate leader Mitch McConnell recently said, the Obama administration wants to "hold off these [three] known job-creating agreements in exchange for a green light to spend more money. It's astonishing."

Second would be staving off new regulations. Lafayette College economists Nicole and Mark Crain's study says that the annual cost of all federal regulations on business is already $970 billion per year. On top of this, the government is generating many pages of new rules and regulations under ObamaCare, and we can expect who knows how many new pages of energy regulations from the Environmental Protection Agency.

Finally, end the government effort to control the supply, and therefore raise the cost, of energy. From its slowness in issuing new offshore oil drilling permits to its effort to impede coal-fired electricity plants and a myriad of other energy-negative steps, this administration and its congressional allies are driving up the cost of energy and impairing economic growth in the process.

America's businesses can bring us out of our current economic doldrums, but Washington must let them succeed.