Opinion

Time for first principles and growth

VIEWPOINT
Jay Bowen

With gross federal outstanding debt poised to pierce $17 trillion, an entitlement crisis that includes over $80 trillion in unfunded liabilities, 47 million people on food stamps and 16 percent of the population living in poverty, it has become abundantly and increasingly clear over the last few decades that our current system is now officially broken in terms of effectuating substantive and productive policy changes.

Like a child with virtually no self-control, lawmakers, in a great show of reckless bipartisanship, have put the nation in an acutely precarious fiscal position.

This horrid backdrop is only being made worse by the current recovery, which has indeed been a slog. In fact, what was once thought to be a transitory sluggishness has taken on the feeling of permanence, characterized by growth rates significantly below our long-term average. After all, the difference between a 3.3 percent economy (the U.S. average between 1929 and 2012) and a 2 percent rate is 40 percent less output, employment and production; and for each passing quarter that this economic performance gap persists, the more negative the consequences for our standard of living on a variety of fronts. Unfortunately, 2 percent is even a stretch recently as the last four quarters have averaged real growth of 1.6 percent.

Policies do influence economic behavior and payroll decisions, and the unprecedented increase in both part-time and temporary workers during this recovery is corporate America's attempt to circumvent a plethora of burdensome government-mandated cost increases that are reaching lofty heights this year, with the implementation of the 906-page Affordable Care Act, which continues to spawn thousands of pages of regulations. As Wayne Crews of the Competitive Enterprise Institute has recently pointed out, this costs the U.S. economy around $1.8 trillion a year, which is slightly more than Canada's entire 2011 GDP and acts as a major disincentive for capital formation, job creation and overall animal-spirits-oriented economic vibrancy. As the accompanying chart demonstrates, the 1980s recovery was the antithesis of the current expansion on a variety of sensitive economic fronts, with tax and regulatory burdens falling substantially during the former era.

This tepid environment is also expressing itself through a falling labor force participation rate, which is close to historic lows, meaning the unemployment rate is declining primarily because of workers dropping out of the labor force, an unprecedented trend during a recovery, as is the virtual nonexistence of business investment and worker wage stagnation. In this connection, the Fed's hyperaggressive and unprecedented monetary actions have not returned us to a sustainable trend-growth path, as quarter after quarter and now year after year, the economy seems to have fallen into a perpetual state of underperformance from both a growth and price stability standpoint. Importantly, there are a variety of negative consequences that could potentially flow from these actions, particularly concerning inflation and malinvestment.

Thus, it is time to marshal outside forces to inject discipline into the equation. Anyone who thinks differently only need glance at the current fatuous debate over raising the debt ceiling. The most logical path at this point would be a constitutional convention, where a more rules-based approach could be contemplated on a variety of issues, including term limits, a monetary price rule, and tax and spending limitations.

Interestingly, this would not require congressional involvement, as the will of the people, via the enthusiastic actions of 34 state legislatures (two-thirds of the states) would mandate such an event. This would be consistent with the long and storied tradition of strengthening our system of government through the amendment process. I am supremely confident that the Founding Fathers would agree that we have reached a point in our nation's history that makes this approach essential to the long-term viability of our republic.

TOP FEDERAL MARGINAL TAX RATE, PERCENT INCREASE/DECREASE	
1980-1985	-29%
2008-2013	+13%

AVERAGE NUMBER OF PAGES IN FEDERAL REGISTER*	
1980-1984	57,152
2008-2012	77,929

AVERAGE REAL GDP GROWTH RATE	
1982-1986 **	+4.5%
2009-2013	+1.4%

NOMINAL GDP GROWTH (ABSOLUTE PERCENTAGE INCREASE)	
1982-1986 **	37%
2009-2013	16%

** Adjusted page count published by Wayne Crews, Competitive Enterprise Institute.*

*** Represents the first 17 quarters of each expansion.*

Bowen is president of Bowen, Hanes & Co., an Atlanta-based investment counseling firm, and a trustee for The Foundation for Economic Education.