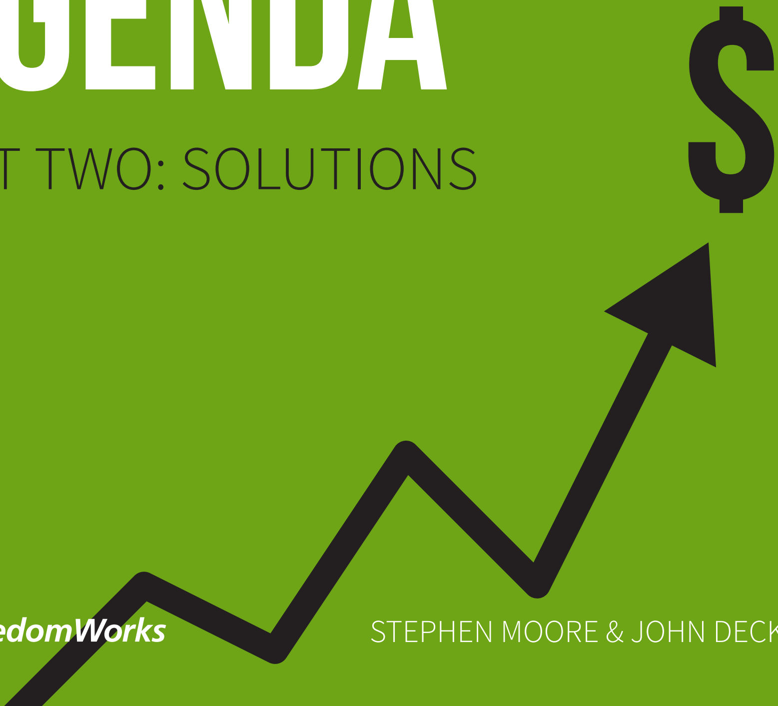
PRO-GROWTH AGENDA

PART TWO: SOLUTIONS



FreedomWorks

STEPHEN MOORE & JOHN DECKER

PREFACE

During his 2016 State of the Union speech to the nation, President Obama took a bow and attempted to persuade Americans that he had resurrected our economy and ushered in a new era of prosperity.

Really?

It's true we had a recovery (in the loosest sense of the word) but hardly one that's touched most Americans. Polls consistently show that, seven years into this "recovery," Americans are financially stressed out—almost half think the recession never ended. No one believes the bogus government numbers of 5 percent unemployment and near-zero inflation. Have the bureaucrats in Washington looked for a job lately? Have they paid tuition, grocery, mortgage, and health insurance bills?

On almost every measure examined, the 2009–2015 "recovery" has been the weakest in over 50 years.

Let's start with the broadest measure of economic progress: growth in output. Democrats used to disparage the Reagan expansion as nothing special, yet the growth rate over the first 25 quarters under Reagan was 34 percent versus 14.3 percent under Obama.

How much does this matter? If we had grown at an average pace, gross domestic product (GDP) in 2015 would have been about $1.8 trillion higher. Under the Reagan recovery, growth would have been almost $2.8 trillion higher.

Every recession is different in cause and consequences, so the Joint Economic Committee (JEC) dug deeper into the numbers, examining GDP growth on a per capita basis. The Reagan recovery was particularly strong partly because it occurred as millions of baby boomers reached the workforce, adding to job growth. But even on a per capita basis, real GDP has grown only 9 percent under Obama versus 18.8 percent in the average recovery. That's the lowest of any post-1960 recovery.

The JEC also measured job market trends. The official unemployment of just under 5 percent today is very low, but that's the biggest lie in America. The distortion comes from the 94 million people over the age of 16 who are out of the labor force. If job growth had been the same as the average recovery, we would have at least 5 million more Americans working—comparable to the entire workforce of Pennsylvania. With a Reagan-paced job recovery, we would have at least 12 million more Americans working. Job creators are still on strike, and it's a result of Environmental Protection Agency (EPA) rules, ObamaCare, tax hikes, and other assaults against business.

When fewer people are working and economic growth is atypically low, incomes don't grow. That's the real sorry story of the Obama era. If the Obama recovery had been even average, the JEC calculates that "after-tax per person income would be $3,339 per year higher." Despite President Obama's State of the Union address, American families will no longer be fooled with happy talk about "hope and change." They feel the impact of this slow economy. The JEC's dreary conclusion summarizes the real legacy of Obamanomics: "On economic growth the Obama recovery ranks dead last."

Another statistic that stands out in Obama's record is the national debt: now over $19 trillion. By the time he leaves office, it will be almost double where it was when he was sworn in. The interest payments alone cost half a trillion dollars a year.

This is the sad state of our economy. We are barely trudging forward. Employers are in a holding period. Americans' savings are depleted. Where will the growth come from to propel us into an era of real prosperity?

This report provides some concrete answers. We have a 12-step program for economic revival that will double the U.S. growth rate from 2 to 4 percent, provide $3 trillion more in economic output by the end of the next decade, provide tens of millions of new jobs, and afford pay increases for American families.

We need to get the next president and all our elected officials behind this common sense program of economic resurgence. Even if we only get half way there and increase growth from 2.2 to 3.2 percent, we create nearly $3 trillion more GDP in a decade—and $30 trillion more by 2060.

Read on, join us, and spread the word—America cannot wait anymore.

REDUCE THE TAX CODE TO TURBOCHARGE THE ECONOMY

According to the Tax Foundation, Americans must work 114 days out of the year to pay the entire tax bill levied by federal, local, and state governments in 2015. This burden puts a $4.8 billion strain on our economy—the equivalent of every penny Americans earned from January 1–April 24 just to pay taxes. Americans are spending more money on taxes this year than on food, clothing, and housing combined.

The problem with our tax system isn't just how many taxes are collected but how the code negatively impacts our economy. Its complexity requires billions of man-hours just to figure out what we owe, and high rates and double taxation on savings and investment erode American competitiveness.

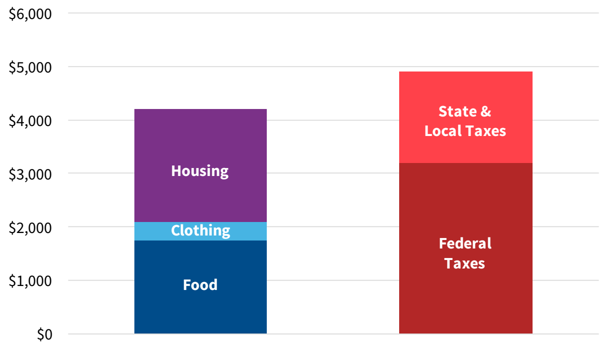


Fig. 01 */ The average American will spend more on taxes in 2015 than on food, clothing, and housing combined.*

Since we haven't reformed the tax system in 30 years, it has become unfair and outdated. Those with the best lawyers and lobbyists pay less than those without political power. It doesn't have to be this way.

A single rate flat tax would spur economic growth and reduce the cost of government. Low tax rates will incentivize individuals and businesses to produce more—since they can keep more—and have a positive impact on job creation. By enacting a flat tax with minimal-to-no deductions, we can eliminate the special interest loopholes that allow big businesses to receive preferential treatment.

Studies indicate that pro-growth tax reform could add around one percentage point of increased growth to our GDP over the next decade. At that rate, the economy would be about $2 trillion larger in 10 years—about $15,000 more per family.

REPEAL DODD-FRANK TO HELP COMMUNITIES

In the aftermath of the 2008 financial crisis, politicians took aim at the big banks in order to prevent such a catastrophe from happening in the future. Unfortunately, instead of hitting big banks, their ammunition—the Dodd-Frank Act—wiped out small community banks throughout the country.

The sheer size of this legislation illustrates much of the problem: 2,300 pages filled with new rules and regulations banks must comply with to stay in business.

Big banks have the money to hire scores of experts and compliance officers who can deal with the new red tape, but community banks don't have the resources to comply with these additional regulations. This has caused the big banks to get bigger and forced small banks to shut down.

A study from Harvard University found that, since "around the time of the Dodd-Frank Act's passage," the "community banks' share of assets has drastically shrunk—over 12 percent."

While small banks are often the backbone of personal and small business loans in our communities, they are bearing the brunt of the damage caused by the Dodd-Frank Act. Many small businesses have complained of a credit squeeze inhibiting startups and expansions, which means fewer jobs. The demise of community banks is one explanation for this lending freeze in local towns across the country.

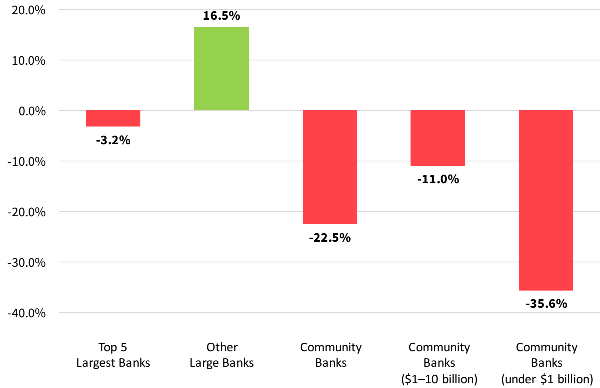


Fig. 02 */ Community banks' post-crisis commercial and industrial loan losses: change in lending market share by type (Q2 2010–Q2 2014)*

Congress should repeal Dodd-Frank's lending requirements and concentrate on breaking up Fannie Mae and Freddie Mac, which were at the epicenter of the crisis and required the biggest bailouts in American history. Congress needs to:

- Limit mortgage guarantees to the median home price in each metropolitan area to help low income and first-time home buyers.
- Require a minimum down payment of 10 percent on all federally guaranteed mortgages.

PUT AN END TO CORPORATE WELFARE

The United States is estimated to run a more than $500 billion budget deficit in 2016, and our national debt is already above $19 trillion. Spending control is imperative, and corporate welfare is a ripe target for reform. We need to get big business off the federal dole.

A study from the Cato Institute shows America spends roughly $100 billion a year on corporate welfare. The watchdog group Open the Books found corporate welfare payments from the federal government to Fortune 100 companies totaling $1.2 trillion from 2000–2012.

The Heritage Foundation adds: “That $1.2 trillion number does not include the hundreds of billions of dollars in housing, bank, and auto company bailouts in 2008 and 2009, because those payments are kept mostly invisible in the federal agency books. It also doesn’t include the asset purchases of the Federal Reserve, indirect subsidies such as the ethanol mandate that enriches large agribusinesses like Archer Daniels Midland, or special tax breaks for wind and solar manufacturers.”

These programs include the Export-Import Bank, the International Monetary Fund, sugar subsidies and other agriculture price-supports, solar energy tax credits, and most of the activities of the Department of Commerce.

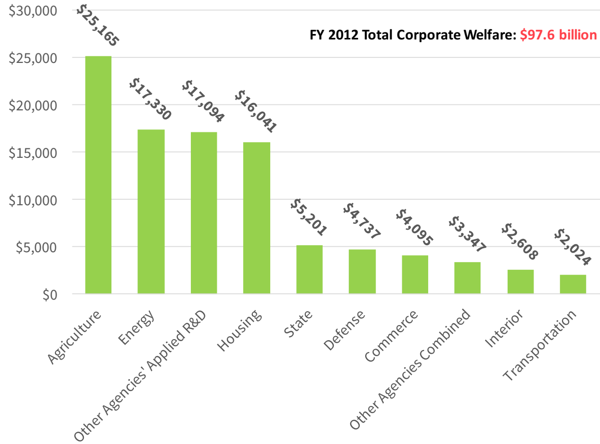


Fig. 03 */ Total corporate welfare by U.S. government department for FY 2012 (millions of USD)*

In 2015 alone, the Chamber of Commerce, Boeing, and Caterpillar spent millions of dollars to defend and refinance the Export-Import Bank—even though only a handful of companies receive 90 percent of the insurance. This forces small companies to pay taxes to defend Fortune 500 company handouts.

CUT THE CORPORATE INCOME TAX TO 15%

We support a full rewrite and modernization of the U.S. tax code, but there is a way to start stimulating growth, investment, and investor confidence now. Congress should cut the corporate tax rate to 15 percent—with full capital expensing—and enact a 5 percent voluntary repatriation tax on the $2 trillion owned by American multinational firms based abroad. This would incentivize companies to bring capital back home and invest in new jobs and infrastructure.

Our current federal corporate tax rate of as the highest of all nations we compete with: 39 percent. The rest of the world closer to 25 percent, and some go as low as 12.5 percent. We've seen companies like Burger King, Pfizer, and dozens of others leave the U.S. in search of lower tax rates—more will go and take jobs with them if this isn't fixed. Our plan would take America from the highest rate in the world to one of the lowest.

Liberals pretend that U.S. tax rates aren't chasing away our jobs, but why are so many nations slashing their rates? The international average has come down from almost 40 percent in 1990 to 25 percent today. For 25 years, our rates haven't budged, while the rest of the world keeps cutting.

Even President Obama's tax reform commission found "deep flaws" in our corporate tax. It concluded that the corporate tax "acts to reduce the productivity of American businesses and American workers, increase the likelihood and cost of financial distress, and drain resources away from more valuable uses." It's not fat cat shareholders who suffer most—it's working-class Americans.

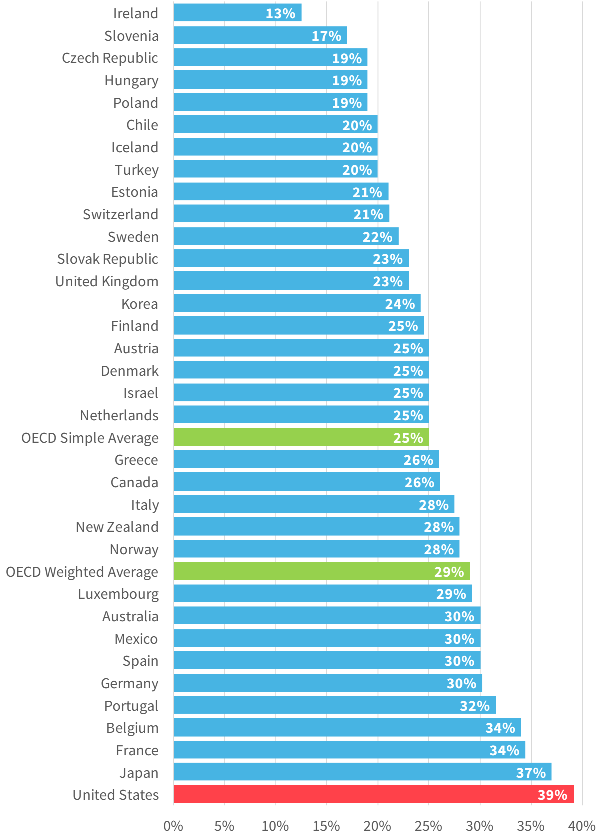


Fig. 04 / *Corporate income tax rates in the industrialized world*

REPEAL OBAMACARE'S EMPLOYER MANDATES

When President Obama touted his health care legislation, he famously said "if you like your health care, you can keep it." Now that thousands have been kicked off their insurance, Americans know this promise was false. But not only are workers losing their health care, they're losing their jobs. ObamaCare's onerous regulations and employer mandate require businesses with 50 or more employees to provide health care subsidies to full-time workers.

The law also defines full-time employees as those who work at least 30 hours a week, instead of the typical 40-hour workweek. Businesses that don't provide for ObamaCare-eligible employees can face fines of up to $3,000 per worker. This regulation incentivizes businesses to cut hours for part time employees, which takes money out of their paycheck, giving rise to a new group of workers known as "29ers."

Many other firms with low profit margins avoid the financial pain of the law by remaining below 50 employees so they are not mandated to provide benefits. These are "49er employers," and we see more of them all the time. No wonder paychecks aren't growing—the law is costing American families tens of billions of dollars in lost wages and salaries.

Investor's Business Daily has published a list of more than 400 major employers that have cut back hours or employment in part to get around the ObamaCare mandate. Companies like Applebees, Red Lobster, and other restaurant franchises have reduced hours to circumvent the mandate. In fact, the Congressional Budget Office predicted that ObamaCare could end up costing as many as 800,000 jobs, and the sluggish hiring pace of the last three years seems to confirm that estimate.

Changing the law's definition of a "full time workweek" from 30 hours to the traditional 40 will lead to increased wages, more jobs, and lower prices for consumers. The solution is clear if we want to make jobs the number one priority for the country going forward: repeal the ObamaCare 50-worker and 29-hour employer mandates. This is a surefire way to put Americans back to work. Another one is to repeal ObamaCare and replace it with a free-market alternative

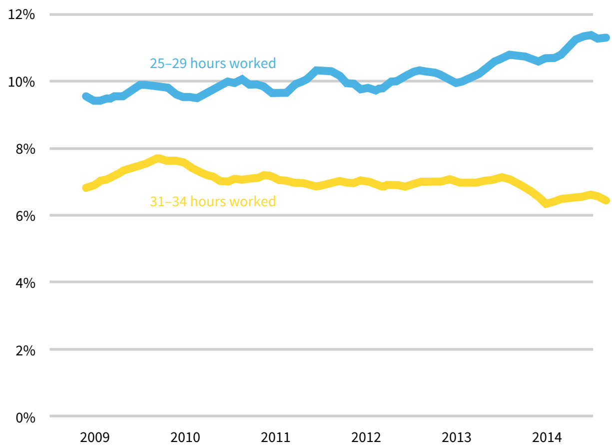


Fig. 05 */ Part-time employees by hours worked*

REQUIRE WORK FOR ALL FEDERAL WELFARE BENEFIT PROGRAMS

Barack Obama shattered every record for expanding the welfare rolls and the costs of the program. Six years from the start of the recovery, welfare use is still abnormally high. Obama viewed welfare programs as an economic stimulus and his administration actively recruited people to apply for food stamps, Medicaid, ObamaCare subsidies, unemployment benefits, and housing aid. At one point more than 45 million Americans—one in seven households—was receiving food stamps. The costs of these income transfer programs spiraled to $1 trillion.

Welfare should be a hand up, not a hand out. The Clinton-Gingrich welfare reforms of 1996 imposed work requirements for welfare and established time limits of less than two years for federal cash assistance. A Brookings Institute study on the effects of those law changes found a greater than 50 percent decline in traditional welfare.

The Obama administration's combination of more generous benefits and suspending work requirements has created a financial incentive for the poor to stay on welfare and turn away work. A study by Casey Mulligan, an economist at the University of Chicago found that welfare recipients can now lose about 70 cents of every additional dollar of earnings by returning to the workforce.

Every federal welfare program—there are more than 30 major income-tested programs—should require work as a condition for assistance. Work is a key element to economic self-sufficiency, dignity, and poverty reduction. The 1996 welfare reforms had a positive impact on reducing poverty and saved money as well. It was a win-win and we should implement those policies again—immediately.

Rank	Jurisdiction	Pre-tax Equivalent	Hourly Wage Equivalent
1	Hawaii	$60,590	$29.13
2	Washington, DC	$50,820	$24.43
3	Massachussetts	$50,540	$24.30
4	Connecticut	$44,370	$21.33
5	New York	$43,700	$21.01
6	New Jersey	$43,450	$20.89
7	Rhode Island	$43,330	$20.83
8	Vermont	$42,350	$20.36
9	New Hampshire	$39,750	$19.11
10	Maryland	$38,160	$18.35
11	California	$37,160	$17.87
12	Oregon	$34,300	$16.49
13	Wyoming	$32,620	$15.68
14	Nevada	$29,820	$14.34
15	Minnesota	$29,350	$14.11
16	Delaware	$29,220	$14.05
17	Washington	$28,840	$13.87
18	North Dakota	$28,830	$13.86
19	Pennsylvania	$28,670	$13.78
20	New Mexico	$27,900	$13.41
21	Montana	$26,930	$12.95
22	South Dakota	$26,610	$12.79
23	Kansas	$26,490	$12.74
24	Michigan	$26,430	$12.71
25	Alaska	$26,400	$12.69
26	Ohio	$26,200	$12.60
27	North Carolina	$25,760	$12.38
28	West Virginia	$24,900	$11.97
29	Alabama	$23,310	$11.21
30	Indiana	$22,900	$11.01
31	Missouri	$22,800	$10.96
32	Oklahoma	$22,480	$10.81
33	Louisiana	$22,250	$10.70
34	South Carolina	$21,910	$10.53
35	Arizona	$15,320	$7.37
36	Wisconsin	$14,890	$7.16
37	Virginia	$14,870	$7.15
38	Colorado	$14,750	$7.09
39	Nebraska	$14,420	$6.93
40	Iowa	$14,200	$6.83
41	Georgia	$14,060	$6.76
42	Utah	$13,950	$6.71
43	Maine	$13,920	$6.69
44	Illinois	$13,580	$6.53
45	Kentucky	$13,350	$6.42
46	Florida	$12,600	$6.06
47	Texas	$12,550	$6.03
48	Arkansas	$12,230	$5.88
49	Tennessee	$12,120	$5.83
50	Mississippi	$11,830	$5.69
51	Idaho	$11,150	$5.36

Fig. 06 */ State rankings of work vs. welfare*

ALLOW COMPETITION FOR HEALTH CARE INSURERS

Rising health care costs remain a significant challenge to American families after the passage of ObamaCare. The Kaiser Foundation reports that the average premium for a family plan at work is almost $18,000 a year—about one-third of the average household income in the United States.

With costs that high, it's clear that reforms are needed in order to make health care more affordable for American families. President Obama said that he would entertain any reasonable idea to reduce health care costs when he was pushing ObamaCare through Congress, but he refused to consider an idea that could save thousands of dollars on health plans: canceling benefit mandates and allowing insurance companies to compete across state lines.

Many states have regulations and mandates that prevent health care companies from selling low-cost, affordable coverage within their borders. According to the Heritage Foundation, "states have imposed a total of 2,271 benefit mandates—or approximately 45 per state" which can "raise premiums by $20–$40 per month, or hundreds of dollars per year."

If companies are allowed to compete across state lines, insurers will compete for your business by offering you more options based on your cost and coverage preferences. The Congressional Budget Office found that this would cause roughly one million people to drop their employer-sponsored insurance in favor of cheaper or more comprehensive out-of-state plans.

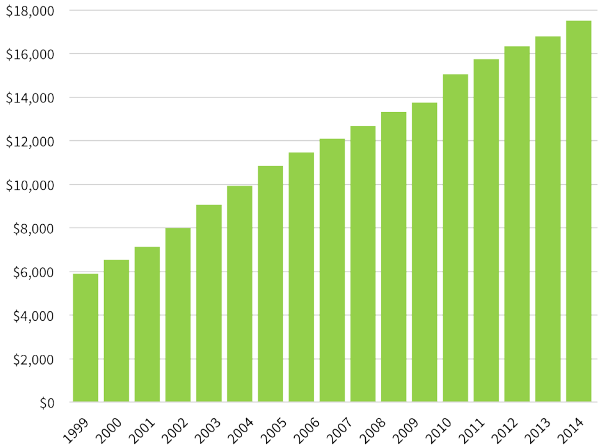


Fig. 07 */ The climbing average premium for a family plan at work*

If this policy were paired with a repeal of the dozens of mandated procedures covered under the one-size-fits-all ObamaCare law, patients could save thousands of dollars more by choosing only the services they want and need. Young people, who are still the least likely to be insured even with ObamaCare, have to pay substantially more for health insurance, even with subsidies, than they would with catastrophic coverage plans that protect them from major illnesses or injuries. If the goal is affordable insurance for all Americans, cutting mandatory benefits would be a major step forward.

ALLOW YOUNG WORKERS TO INVEST PAYROLL TAX DOLLARS

How can America create a nation of capitalists? Right now only half of Americans have stock portfolios of more than $50,000. We want a program where more people have the option to invest in stocks and those portfolios grow exponentially by the time one reaches retirement age, allowing one to retire with a portfolio in the range of $500,000–$1 million.

A simple way to do this is to allow young workers to invest in personal retirement accounts with a portion of the money that they currently pay in FICA taxes. Right now, the government deducts 6.2 percent from the paycheck of every American worker (as well as another 6.2 percent from the employer) in order to fund Social Security. This is one of the worst investments workers will make in their lifetime—the return on Social Security payroll taxes may even be negative over a lifetime for many.

The most recent estimates show the Social Security Trust Fund will run out by 2034. According to the Wall Street Journal, the government would have to "require either a 50 percent rise in the Social Security tax rate to maintain the existing benefit rules or a one-third cut in projected benefits to maintain the existing tax rate."

Thankfully, there's an alternative that could leave you far wealthier than Social Security ever could. Studies show that giving young workers the option to invest their payroll tax dollars in personal retirement accounts would result in a far more prosperous retirement. Better yet, placing money into a personal retirement account would mean more investment dollars flowing to the private sector (thus growing our economy) than in the hands of politicians.

Fig. 08 / Monthly retirement benefits of private investment vs. Social Security

	Monthly Benefit		
Investment Package	**Wealthy**	**Average**	**Poor**
Stocks	$4,586	$2,621	$1,287
50/50	$3,562	$2,067	$1,096
Bonds	$2,539	$1,565	$896
Social Security	$2,033	$1,358	$891

The reform we favor would allow workers to take 6 percent of each paycheck and put this money into an Own America account, coming from the employer share of the Social Security payroll tax. To make up for the Social Security shortfall, the Feds would issue a new class of 50-year Own America bonds that could be sold at around 3 percent interest at today's rates.

The average worker under 35 would retire with an income about 50 percent higher than what Social Security promises—promises that can't be kept. Still, we would make the private account option voluntary for every American, so young workers who want to stay with the current system would be permitted to do so. Don't let politicians in Washington grab more tax dollars from your paycheck or cut money from your retirement plan—support private savings accounts to retire more profitably.

DEVOLVE EDUCATION SPENDING TO STATES AND LOCALITIES

Here's a statement almost all parents know to be true: America's broken education system is a roadblock to achieving the American Dream. The problems plaguing our public schools include one of the lowest high school completion rates in the developed world and test scores that lag behind our international competitors. More troubling, these problems persist despite spending the most of all of developed nations on students each year.

There's no evidence that more spending on the government schools has had much of an impact on academic performance. It's well-known that many private schools can provide better educational options at even lower costs than public schools. Catholic schools often get better results in inner cities for almost half the cost.

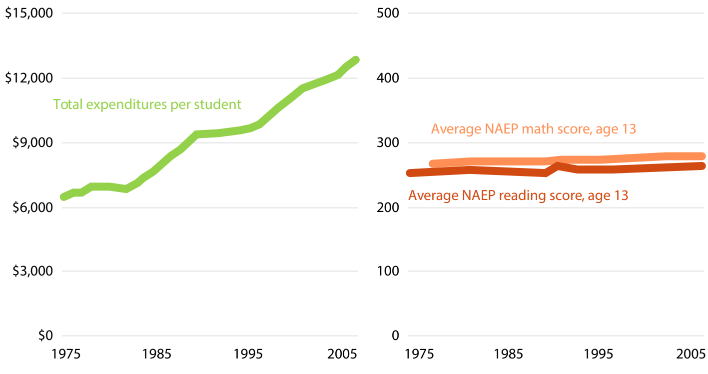


Fig. 09 */ U.S. education spending vs. student achievement*

Washington, DC's school voucher program was able to obtain graduation rates as high as 91 percent (at half the cost), while the public school's rate was only 56 percent. An academic performance analysis from the American Enterprise Institute found that "10 studies have used the best research methods we have available to evaluate the efficacy of voucher programs. Seven of them have found positive benefits in reading or math for some or all of the students participating, three found no effect, and none have ever found negative effects."

What is clear is that local communities are better equipped to manage their education systems than are bureaucrats in Washington, DC. Instead of just throwing more money at the problem, we should let communities determine how that money is spent. That's why we should devolve federal education spending to states and localities, and recognize that a one-size-fits-all approach will never help our students achieve excellence.

America won't remain the most prosperous nation for long without the best-educated kids in the world. We need a world-class education system to help supercharge our economy. Restoring local control of education spending will help make such a system a reality.

DEVELOP ALL OF AMERICA'S ENERGY SOURCES

The fossil fuels industry carried our economy from 2007–2013, accounting for almost all net added employment. The U.S. increased its production of oil and gas by about 75 percent in this time, even as liberals warned that the world was running out of oil.

The facts are we have an estimated 1.5 trillion barrels of recoverable resources, and most of that is below federal lands—a treasure chest of natural resources worth around $50 trillion. Tapping into these resources could create at least one million new jobs—like North Dakota, where energy production powers the lowest unemployment rate in the country. The added production is worth at least a one percentage point increase in GDP from a pro-drilling and pro-mining policy.

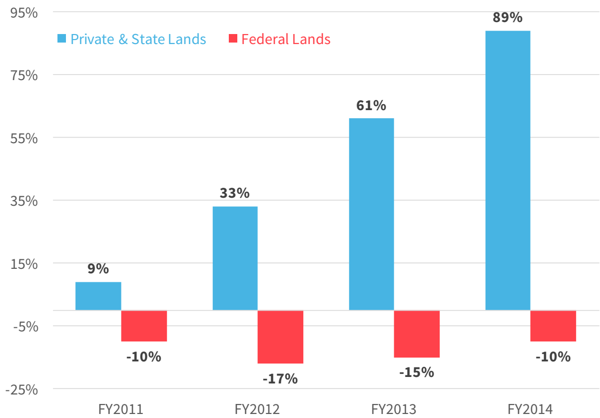


Fig. 10 */ Oil production on federal vs. private and state lands*

FreedomWorks

The federal government could raise $3 trillion of revenues by allowing drilling on federal lands over 30 years. For every dollar the government spends administering our domestic oil and natural gas industries, these companies return $54.12 in royalties and leasing to taxpayers.

Three policies need to be adopted for this pro-America energy revolution. First, we need to allow drilling and mining on federal lands. The Obama administration has issued fewer federal land leases than its four predecessors, and the amount of time it takes to process a permit to utilize land for energy production has increased from 205 days under George W. Bush to 242 days.

We have seen an unlikely energy renaissance, becoming the world's top oil and natural gas producer in spite of many of our current energy policies. We need to roll back Obama EPA regulations that are intended to strangle our domestic fossil fuels industry. The EPA has been actively regulating carbon dioxide even though CO2 is not a pollution in any way like smog, lead, or carbon monoxide. These regulations have decapitated our coal industry in particular.

SOURCES

Fig. 01 / Tax Foundation
http://taxfoundation.org/article/tax-freedom-day-2015-april-24th

Fig. 02 / *Forbes*
http://www.forbes.com/sites/carriesheffield/2015/02/09/dodd-frank-is-killing-community-banks

Fig. 03 / MyGovCost
http://www.mygovcost.org/2012/08/08/100-billion-of-corporate-welfare

Fig. 04 / Tax Foundation
http://taxfoundation.org/blog/us-has-highest-corporate-income-tax-rate-oecd

Fig. 05 / FiveThirtyEight
http://fivethirtyeight.com/features/yes-some-companies-are-cutting-hours-in-response-to-ObamaCare

Fig. 06 / Cato Institute
http://object.cato.org/sites/cato.org/files/pubs/pdf/the_work_versus_welfare_trade-off_2013_wp.pdf

Fig. 07 / *New York*
http://nymag.com/daily/intelligencer/2015/09/ObamaCare-haters-freaking-out-over-new-report.html

Fig. 08 / Cato Institute
http://object.cato.org/sites/cato.org/files/pubs/pdf/PA692.pdf

Fig. 09 / *City Journal*
http://www.city-journal.org/2012/22_2_public-education-spending.html

Fig. 10 / Institute for Energy Research
http://instituteforenergyresearch.org/analysis/blm-considers-raising-royalty-rates-ier-has-a-24-billion-better-idea

LEARN MORE ABOUT THE PRO-GROWTH AGENDA
AND HOW WE CAN ENSURE THE FUTURE OF
AMERICAN PROSPERITY AT **FREEDOMWORKS.ORG**

FreedomWorks