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OPINION | COMMENTARY

Don't Believe the Economic Pessimists

Memo to Clinton and Trump: The U.S. economy can and will grow faster with the right policies.

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By JOHN H. COCHRANE
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No matter who wins Tuesday's presidential election, now ought to be the time that policy makers in Washington come together to tackle America's greatest economic problem: sclerotic growth. The recession ended more than seven years ago. Unemployment has returned to normal levels. Yet gross domestic product is rising at half its postwar average rate. Achieving better growth is possible, but it will require deep structural reforms.

The policy worthies have said for eight years: stimulus today, structural reform tomorrow. Now it's tomorrow, but novel excuses for stimulus keep coming. "Secular stagnation" or "hysteresis" account for slow growth. Prosperity demands more borrowing and spending—even on bridges to nowhere—or deliberate inflation or negative interest rates. Others advocate surrender. More growth is impossible. Accept and manage mediocrity.

But for those willing to recognize the simple lessons of history, slow growth is not hard to diagnose or to cure. The U.S. economy suffers from complex, arbitrary and politicized regulation. The ridiculous tax system and badly structured social programs discourage work and investment. Even internet giants are now running to Washington for regulatory favors.

If you think robust growth is impossible, consider a serious growth-oriented policy program—one that could even satisfy many of the left's desires.

• *Taxes.* The ideal tax system raises revenue for the government while distorting economic decisions as little as possible. A pure tax on consumption, with no corporate, income, estate, or other taxes is pretty close to that ideal.

The U.S. tax system is the opposite: By exempting lots of income, the government raises relatively little money. Yet an extra dollar is heavily taxed, greatly lowering incentives and encouraging people to find or create exemptions. This massive complexity and obscurity undermine faith in the system.

Progressives, ponder this: With a sales tax of only 25%, the government would likely have gotten a lot more money from Donald Trump—who has employed complex but legal tax-avoidance schemes—than it did by purporting to tax income at high rates.

• *Regulation.* U.S. regulation is arbitrary, slow, discretionary and politicized. Speak out on the wrong side of the party in power and some federal agency will be after you.

Imagine a deep rule-of-law regulatory reform, along the lines proposed by House Speaker Paul Ryan's "Better Way" plan. Congress must review and approve major regulations. People and businesses have a right to see evidence and appeal. Regulators face a shot clock—no more years and years of delays on decisions. Agencies must conduct serious, transparent and retrospective cost-benefit analysis.

Imagine a similar deep reform of state and local restrictions including zoning laws and occupational-licensing regulations.

• *Social programs.* When many people earn an extra dollar, they lose more than a dollar of benefits. If we fixed these disincentives, more Americans would work—and fewer would need benefits.

• *Health.* Replace ObamaCare with a simple health-insurance voucher. Deregulate insurance and entry into health care dramatically.

• *Finance.* Replace strangling regulation of financial companies with a simple rule: If you issue enough equity that stockholders bear the risks, you can do what you want. Rep. Jeb Hensarling has proposed such legislation. Hearty competition is the best consumer protection.

• *Labor.* The best worker protection is a worker's ability to swiftly change jobs. This is more likely if employers do not face a mountain of red tape, complex rules and legal liability.

• *Immigration and trade.* The politically incorrect truth: Allowing Americans to buy from the best supplier and permitting people who want to work and start businesses to immigrate is good for the economy. Trying to impoverish China will not revive America.

• *Education.* Let lower-income Americans get a decent education from charter schools and vouchers.

• *Energy.* Trade all the crony subsidies and credits and regulations for a simple uniform revenue-neutral carbon tax. The country will have more growth and less carbon.

It would take an entrenched obtuseness to claim such a program cannot substantially improve economic output and incomes. If you claim such good policy cannot help, then it follows that bad policies do not hurt. Nativism, trade barriers, overregulation, legal capture, high taxes, controlled markets and people excluded from work won't hurt our slow but positive growth. Don't give populists cover to try it again.

If you object that such good policy is politically infeasible, then you at least grant that robust growth is economically possible. And small steps help. Current bipartisan proposals to reform taxes, Social Security, immigration, the regulatory state and trade agreements would go a long way to reviving growth. Have a bit more faith in democracy.

On the other hand, the major party presidential candidates' signature plans—child-care tax credits, college subsidies, higher taxes on people who don't hire good enough lawyers; threatening a trade war and deporting millions of unauthorized immigrants—cannot revive substantial growth.

So why is there so little talk of serious growth-oriented policy? Regulated and protected industries and unions, and the politicians who extract support from them in return for favors, will lose enormously. The global policy elite, steeped in Keynesian demand management for the economy as a whole, and microregulation of individual businesses, are intellectually unprepared for the hard project of “structural reform”—fixing the entire economy by cleaning up the thousands of little messes. Even economists fight to protect outdated skills.

Mr. Cochrane is a senior fellow of the Hoover Institution and an adjunct scholar of the Cato Institute.