

## **From a recovery built on sand to a firm foundation for economic growth...**

The actions of the Obama administration and the Federal Reserve to kickstart the U.S. economy through the injection of massive amounts of liquidity will lead to a return of the economic conditions of the 1970s - low rates of economic growth and high inflation. The global economic recession was precipitated by the unwise lending policies of bankers, but those policies were made possible by excessive monetary expansion. Large budget deficits of the Federal government and lax monetary policies of the Federal Reserve will continue to undermine the financial system. The current "recovery" plan does little to address the fundamental weaknesses in the U.S. economy.

The long-term health of our economy depends on **increasing productivity**. Over the past decade the United States has changed from an economy built on savings and investment to one built on borrowing and consumption. To fix this problem we need fundamental change that will **restore incentives to save and invest**.

A **10-year adjustment plan** to restore our economic strength would have the following key elements::

- The elimination of disincentives to save and invest through the phased **elimination of all taxes on savings**.
- The phased **introduction of a national consumption tax**, for example, starting at a 1 percent rate and increasing in equal increments to a 10 percent rate.
- The phased **elimination of all current exemptions in the personal tax code**, such as the deduction for mortgage interest. To achieve this, 90 percent of the currently eligible exemptions would be allowed in the first year of an adjustment program, reduced by 10 percent per year until all exemptions are eliminated. At the end of the adjustment period every individual or family would file a simple tax return that would provide for a

basic tax-free allowance per person under **a simplified marginal tax rate structure** of say 2 rates.

- The **simplification of business taxes** to a unitary tax at a low level (e.g., 10 percent) with a phased **elimination of all business tax exemptions** on the same path as that for individuals.

The simplification of the tax system and a clear shift of incentives from consumption to saving (and hence investment) would solve the fundamental weakness that has been built into the U.S. economy in recent years. It would also allow the IRS to be downsized to a small compliance monitoring agency.

Government expenditure needs to be controlled if we are to restore the economy to a sustainable growth path. Much of this expenditure is driven by entitlement programs, such as Medicare and Social Security and it is difficult to reduce these. However, the **priority for government expenditures should be investment in infrastructure and human capital**. Improvements in these essential elements will help to support the private investment that will restore economic growth.

David Blandford  
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