



Cleaning Out the Attic

By John Mauldin | June 6, 2015

A Six-Point Plan to Restore Economic Growth and Prosperity

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Three weeks ago I co-authored an [op-ed](#) for the *Investor's Business Daily* with Stephen Moore, founder of the Club for Growth and former *Wall Street Journal* editorial board member, currently working with the Heritage Foundation. Our goal was to present a simple outline of the policies we need to pursue as a country in order to get us back to 3–4% annual GDP growth. As we note in the op-ed, Stephen and I have been engaging with a number of presidential candidates and with other economists around the topic of growth.

We spent a great deal of time going back and forth on a variety of topics, trying to get down to a few ideas that we think make the most sense. I should note that few people will read the piece below without being upset by at least one of our suggestions. The goal was to not just list the standard Republican “fixes” but to actually come up with a plan that might garner support across the political spectrum on ways to address the critical problem of how to get the country back to acceptable growth.

Part of the challenge was reducing what could have been a book to just 800 words. Today's letter will start with the actual op-ed, and then I will expand on some of the points. Readers and friends have been pressing me to offer some ideas as to what policies I think we should pursue, so here they are. I hope the op-ed will create some thoughtful response. It would be nice if we could get a few candidates to embrace some or all of what we are suggesting, even (or maybe especially) some of the more radical parts.

(I have made a few very minor edits to the op-ed.)

A Six-Point Plan to Restore Economic Growth and Prosperity

By John Mauldin and Stephen Moore

The dismal news of 0.2% GDP growth for the first quarter only confirmed that the US is in the midst of its slowest recovery in half a century from an economic crisis.

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Could it be that at least some of the rage we've seen in the streets of Baltimore is a result of a paltry recovery that hasn't benefited low-income inner-city areas?

We are at least \$1.5 trillion a year behind where we would be with even an average post-World War II recovery.

While many blame a lack of sufficient demand and even insufficient government spending, our view is that the primary factors behind the growth slowdown are an increasingly intrusive regulatory environment, a confusing and punitive tax scheme, and lack of certainty over healthcare costs.

Each of these factors has contributed to a climate where growth is slow and incomes are stagnant. These are problems that cannot be solved by monetary and fiscal policy alone.

To get real growth and increased productivity, we need to deal with the real source of economic progress: the incentive structure.

The coming presidential race offers an opportunity for candidates to put forth concrete and comprehensive ideas about what can be done to create higher economic growth – as opposed to platitudes and piecemeal ideas that don't address the entire problem.

The two of us have met with several candidates and discussed tax reform and other economic growth issues. We offer here some solutions of our own for them to consider.

1. Streamline the federal bureaucracy. Government has become much like the neighbor who has hoarded every magazine and odd knick-knack for 50 years. The attic and every room are stuffed with items no one would miss. The size of the US code has multiplied by over 18 times in 65 years. There are more than 1 million restrictive regulations.

Enough already. It's time to clean out the attic. The president, with some flexibility, should require each agency to reduce the number of regulations under its purview by 20%, at the rate of 5% a year. And then Congress should pass a sunset law for the remaining regulations, requiring them to be reviewed at some point in order to be maintained.

Further, if new rules are needed, then remove some old ones. Stop the growth of the federal regulatory code. We have enough rules today; let's just make sure they're the right ones.

2. Simplify and flatten the income tax. Make the individual income rate 20% (at most) for all income over \$50,000, with no deductions for anything. Reduce the corporate tax to 15%, again eliminating all deductions other than what is allowed by standard accounting practice. No perks, no special benefits.

Further, tax foreign corporate income at 5%–10%, and let companies bring it back home to invest here. This strategy will actually increase tax revenues.

3. Replace the payroll tax with a business transfer tax of 15%, which will give lower-income

workers a big raise. Companies would pay tax on their gross receipts, minus allowable expenses in the conduct of producing goods and services.

Nearly every economist agrees that consumption taxes are better than income taxes. Further, this tax can be rebated at the border, so it should encourage domestic production and be popular with union workers since it makes US products more competitive internationally.

4. Provide certainty by keeping tax rates low through a tax-limitation constitutional amendment that would require future tax increases to be passed by 60% of the Congress, in combination with a balanced-budget amendment.

We realize that implementation of these measures could be somewhat jarring, so we'd suggest phasing them in over four to five years – more than enough time for everyone to adjust.

5. Roll back the regulatory state. Recognize that many federal agencies are still mired in the mid-20th century if not the 19th. It's time to design a regulatory system that fosters jobs and growth while protecting citizens.

Let's start with the easy target: the Food and Drug Administration. The United States is the wellspring of biotechnological research, yet more and more of our original research is being taken overseas for further development, producing jobs outside the US

A bipartisan commission can design a new agency with a new regulatory regime and bring it to the floor of Congress for a vote. Instead of a system that makes drug-creation prohibitively expensive, favors Big Pharma and exports jobs, let's harness the power of US entrepreneurs.

Streamline the process so healthcare can keep up with research, thereby lowering healthcare costs and providing healthier outcomes for everyone. Then start with the next regulatory agency until all have been updated.

6. Drill for America's domestic energy and use the royalties on federal lands to retire the debt and/or fund needed infrastructure repair instead of raising taxes. An estimated \$2 trillion of royalties and other fees could be raised by drilling on non-environmentally sensitive lands, and this would reduce US reliance on foreign oil while breaking the financial back of many terrorist networks.

Growth is the solution to nearly every social, economic, and financial problem in America, and we aren't getting enough of it. This is a plan that puts US competitiveness first and brings middle-class jobs back to America. We are eager to see which candidates – in either party – embrace this prosperity agenda.

Cleaning Out the Attic

Let's be clear: in a society as complex as ours, we need regulations. We need regulations that protect consumers and level the playing field for all businesses. But everybody knows the

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regulatory code has gone berserk. There are rules on the books that were there before World War II and make no sense today, but they're still there. There are whole departments whose only purpose is to accumulate paper that provides no real societal benefit.

Our purpose here is not to get rid of regulations but to make us think about how many and what kinds of regulations we actually need. Right now, regulations never go away; we just add new ones. Every time a regulation is added, somebody ends up paying more money. Further, a lot of regulation is there just to protect current business incumbents and to create barriers to entry for new competition. If you think the republic is going to crumble because we have 20% fewer regulations, there's not much we can talk about.

There again, the president should have some flexibility. Maybe the number of regulations each agency is required to reduce should be not 20% but 15%, or maybe it should be 23%. But let's at least make an attempt to rationalize the regulations we have and create a process for rationalizing the number of regulations on an ongoing basis.

This will not create a business nirvana, but it will help increase productivity and profits, which are the engines of growth.

Restructuring the Tax Code

I get that our proposals with regard to taxes are a tad more controversial. Our goal here is to change the incentive structure, actually increase income for the bottom half of the country, and at the same time make the tax structure more fair.

Note that we removed all deductions for everything. There is something wrong with a world in which you and I pay more taxes than General Electric does. A 15% corporate tax will actually collect more taxes, when coupled with a 5 to 10% tax on offshore income, than we are currently collecting.

Larry Lindsay will tell anyone who will listen that we could get rid of all other taxes if we went to a 21% value-added tax, and we would produce the same amount of tax revenue. Think about that for a moment. No income taxes, no corporate taxes, no Medicare taxes, no Social Security taxes. No tariffs. Nothing.

In a perfect economic world, I would adopt that plan. Consumption taxes are far more economically efficient than income taxes.

But in our discussion with a variety of players, we found that the appetite for getting rid of all income taxes is just not there. So we opted for a flat tax. The higher you make the business transfer tax, the lower you can make the income tax. There are some differences between a BTT and a VAT, but they are cousins.

But what our proposal does is allow for the elimination of Social Security taxes on both the part of the employee and the employer. This would essentially give a 6.2% raise on the first \$118,000 of

income to every worker in America. The amounts businesses don't pay for their portion of Social Security taxes will help offset the BTT they will pay.

Stephen and I toyed around with making the tax on income from \$50,000-\$100,000 a flat 10%, rising to 20% above \$100,000. I could live with that or just not have taxes start until you make \$100,000.

The point of setting corporate and income taxes at such a low rate is that it eliminates the rationale for deductions. You don't need a mortgage deduction if you're making over \$100,000 and only paying 20%. Getting a 20% deduction is not going to make you donate money to a charity for the tax break. There are some 3200+ tax loopholes for corporations. Some of those loopholes apply only to one specific corporation. How wrong is that? We need to get the government out of micromanaging the economy. Shut down all the loopholes. Period.

The average Republican, myself included, will rebel against the idea of creating a new tax (the business transfer tax) that would be easy for Democrats to increase when they get the opportunity, which they inevitably will.

So, if Republicans give Democrats something like a BTT, the Democrats can give us, as a part of the deal, a constitutional amendment that limits the ability to raise taxes and requires a balanced budget. If one side or the other can get 60% of the voters to agree to raising taxes, then maybe we should do that. And if we require a balanced budget (taking into account that the government will run a deficit during recessions, so that adjustments have to be made), then Congress will be forced to construct a budget based on our actual income.

While we didn't have time to go into it in the op-ed, the incentive structure for Democrats to go along would be that in the initial negotiating phase there would be some flexibility in setting what the percentage of income taxed by the BTT would be. You could even have some flexibility in the flat tax levels.

While raising taxes is anathema to Stephen and to many other conservatives, I personally would be willing to pay 1-2% more tax in exchange for an amendment that would give me certainty about the future of my taxes.

That extra revenue could go a long way toward making healthcare more available, too. This of course assumes that the US continues to provide a safety net for all of its citizens, that we somehow figure out how to deal with healthcare and a way to pay for it, both now and in the future. Welfare, disability, and other social safety net programs would not be affected by these suggested changes in taxes.

The BTT and the flat income tax would not get triggered until the constitutional amendment passed. Both sides would get something, and the economy of the country would be much better off.

While we mentioned it just in passing, I should bring up again the benefits to trade and exports of a

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BTT. As with a VAT, the BTT tax could be reimbursed when a product crossed the border, thus making our products more competitive. That is going to become critical as the dollar becomes stronger over time. There are a number of economists who believe that such a structure would be a huge boost to exports and jobs.

Designing a 21st Century Government

Much of our bureaucracy is mired in the middle of the last century, regulating problems that have long been solved and not keeping up with the dramatic changes in technology and commerce that are occurring. As mentioned above, the FDA is a prime example of an agency that needs to be reformed. It should be redesigned and then replaced. I admit this is my personal hobbyhorse, as I am intimately involved with a number of new biotechnology companies that have the potential for creating truly revolutionary healthcare changes and that are spending as much or more time navigating the mazes of the FDA as they are researching new cures.

The FDA is designed to impede drug development and has all too often slowed down the development of new cures and treatments. It now takes 15 years, on average, for the agency to approve a new drug (per Newt Gingrich). With all the advances we've made, we are introducing no more drugs per year now than we did 25 or 30 years ago.

This is the same agency that has approved more than 10 multibillion-dollar "blockbuster" drugs for Big Pharma, only to have to withdraw their approval later. Just because they approve something doesn't mean it's actually safe. We would be far better off to have a completely open system, with every bit of data available online, so doctors and patients could make informed decisions.

Alzheimer's is going to cost some \$20 trillion over the next three or four decades. I know of half a dozen companies that are tantalizingly close to a cure, and one or two that I would actually put money into. Most are nowhere close to getting approval for human safety trials of drugs that are intuitively and obviously safe.

With a more rational process, one that puts doctors and patients in control rather than bureaucrats who are trying to protect their jobs and personal fiefdoms, we could lower the time and cost of bringing new drugs and cures to people who desperately need them. If we rationalized the cost of drug development, 100 entrepreneurial funds would form looking to develop the next new drug. Further, niche drugs that might have only a \$200 million market rather than a \$2 billion market might get developed rather than set aside.

Don't even get me started on the stupid bias against antiaging research at the FDA. The FDA does not see aging as a disease; therefore trying to develop a drug to cure it is not in their wheelhouse. Stem cell therapies that can give you renewed organs? Not going to happen in the US unless we change things. What's going to happen is that we're going to end up shipping these technologies offshore, because that's the only way US entrepreneurs who are developing them will be able to bring them to market.

Seriously, the science changes almost monthly. How can you expect a stem cell researcher to honestly “lock down” his breakthrough in, say, the rejuvenation of the human heart and then not want to update his technique six months later as a result of even bigger insights? The technology is moving faster than bureaucrats can regulate it. The process as it currently stands ensures a regrettable outcome: technology that can save our lives gets to us later than it should or never reaches us at all.

I am most definitely in favor of a drug regulatory authority. It is absolutely critical to the safety of the public. But we need to design one from scratch that is capable of functioning in today’s scientific world and delivering drugs and therapies in a timely and cost-effective manner. That is certainly not the FDA of today.

Japan has already gone a long way in allowing stem cell therapies to advance after what is essentially a Phase 1 trial. Yet the vast majority of all the intellectual property on stem cell therapies originates in the United States. Entrepreneurs are going to migrate to Japan because that’s where they can actually begin to make a difference. What will happen is that we will train Japanese researchers in the techniques of developing stem cell therapies for antiaging, and those researchers will start new companies and create jobs. Pretty soon an industry that should have created millions of high-paying jobs in the US will be located in Japan and the rest of Asia instead. All because our bureaucrats are in love with their 19th-century drug regulatory model and their fiefdoms.

Everybody has a favorite agency they would like to see replaced with a modern version. Frankly, every regulatory body should be rethought from scratch in the light of the 21st century and technological change. We should be in the business of trying to encourage entrepreneurs and businesses and guiding them effectively, while making sure they stay between the white lines.

More Than Just Drill Baby Drill

Finally, “An estimated \$2 trillion of royalties and other fees could be raised by drilling on non-environmentally sensitive lands, and this would reduce US reliance on foreign oil while breaking the financial back of many terrorist networks.”

The United States is clearly on a path to producing the majority of our energy from renewable resources at some point in the future. I applaud that trend and think we should all work to make that happen. But in the meantime, natural gas (and nuclear) can help us produce the power we need in a much more environmentally friendly way. And natural gas is part of the equation for fuel cells, which will be a huge game changer.

There is amazing amount of energy locked up on federally controlled lands in the continental US and just offshore. Steve Moore (co-author of the op-ed) has almost finished a book that will be called *Fueling Freedom*, which shows that the US could earn as much as \$2 trillion dollars in royalties and user fees over the next few decades by allowing environmentally sensitive use of our public lands. Those funds could be used to partially finance bonds that could totally renew our

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crumbling infrastructure.

We could build a smart grid that would dramatically reduce our electricity usage as well as pollution and help drive down costs. We would use infrastructure bonds to jumpstart the program, but it could finance itself over time. Our water infrastructure is crumbling in many cities. Some cities lose as much as 30% of their water as a result of leaky, inefficient systems. Water generally has a toll or fees attached to its usage, so the elimination of waste could help finance the bonds as well.

Care has to be taken that states and cities do not see infrastructure bonds as “free money” for building bridges to nowhere but rather as the necessary rebuilding we must do in the next 10 years.

All of this change will mean new jobs. And just as the interstate highway system brought the country together and dramatically improved productivity, being more efficient with our water and power resources would deliver similar benefits.

(By the way, next week’s *Outside the Box* is an explosive and fascinating study which, among other things, shows that the US and much of the developed world are becoming much more efficient users of resources, contrary to public perception. Water usage in the US has been flat for 30 years, even with 90 million more people!)

There’s a Lot More

These are just a few ideas. There is a lot more that could and should be done. Education, retraining, making sure everyone has access to fast and inexpensive communications – everything helps.

The 2016 presidential campaign offers the country an opportunity to have a national conversation about the future directions we should take. How much healthcare do we want, and how do we want to pay for it? How do we deal with income inequality? Do we raise all incomes, or do we penalize small business? How about some thought on how many people are incarcerated and effectively locked out of the workforce because they have a nonviolent felony on their record?

It is my hope that the populist demagogues on the GOP side will be sidelined as soon as possible so we can have an adult discussion. There are enough serious candidates who have thoughtful positions that I am looking forward to the debates.

(Sidebar: I attended a small gathering Wednesday night where Lindsey Graham presented his views. I have also had similar meetings with other candidates, among them Rand Paul. Paul and Graham in a debate? Now that could be fun and offer some real choices, not merely nuanced versions of the same thing. And not just on foreign policy. Marco Rubio and Ted Cruz have different views on immigration. Healthcare? Monetary policy? We need these debates.

My understanding is that the networks are going to limit the debates to no more than ten people. Graham got off a good line on how they choose who is on stage. If it’s popularity and name ID,

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then we may see Brad Pitt on the GOP debate stage.

Can someone please offer Hillary some serious competition on the Democratic side so she has to actually spell out positions and tell us where she wants to go? If you can't get specific, if your answers are sound bites, move back to the porch. The Democrats need to have every bit as intense a debate as the Republicans are going to have so voters can get a sense of where we want to go for the rest of the century.

New York, Maine, and Boston

I am sitting in a single-engine plane on a runway waiting to fly to somewhere in the boonies of New Hampshire as I finish this letter. It is a Swiss-made Pilates, one of the safest aircraft made anywhere. And it's quite comfortable. I am flying with Peter Boockvar (Lindsey Group) and Trish Regan (of Fox). We will be meeting my friends Gary Shilling, Marc Faber, David Rosenberg, and a few others for a small retreat/conference where we will all present and debate for the next few days. I have known about this gathering for years and have been Jonesing to get an invitation. I'm really looking forward to it.

Then Sunday we rent a car and drive to Vermont, where I will spend a few days with Mauldin Economics partners Olivier Garret, Ed D'Agostino, and David Galland, talking business and planning for the rest of the year. I will start reading a book that Pat Cox has just finished on the future of biotech while putting the finishing touches on my own new book, which is out next week.

Tuesday we fly home, and then the following Sunday I am back in New York, where we will be renting a small apartment for the whole month. I am going to participate in a new-technology experiment that I just could not turn down the opportunity to be involved in. The future is so much closer and coming so much faster than you can possibly imagine. And of course in August I will go to Maine for the annual fishing gathering, and later that month I'll visit a few friends in the Boston area.

This last week in NYC was amazing. I really had what I thought was a wide-open schedule and just planned to relax and read and write. But I had the opportunity hear George Gilder present a new paper on using information theory as a basis for developing a new economic model, and then Jim Grant and Steve Forbes responded to him. Grant quipped, "It will be a cold day in June before I share a stage with George Gilder." And it was unseasonably cold that day.

I have been friends with Steve Forbes for a long time, and his response was so thoughtful and full of wisdom. That is why the interviews he does with me are among my best. His questions carefully guide me and keep me on topic, because those questions come from a fully informed intellect that is prepared and understands better than I do the topics we are discussing.

Then the next night was the dinner with Lindsey Graham. Steve Moore was there, as well as Art Laffer (it had been years since I had seen Art); and then in the middle of dinner Geraldo Rivera and Juan Williams walked in. A bit much for this country boy but a lot of fun. Geraldo pointedly

asked Graham how he thought he could make the final cut, and the Senator laid out an interesting map of his proposed journey. No less likely than Barack Obama's in 2007, I guess. I have been following the GOP political debates for 40 years, after voting for George McGovern in 1972. I have never seen the race for the Republican nomination this wide open. I would personally dismiss at least ten candidates, but it would be a different ten from yours or those your neighbors and friends might choose. If we can keep the process from turning into an embarrassing food fight (a real possibility, as Republicans always seem to be able to shoot themselves in the foot and then reload and do it again), I think our upcoming debates might actually help create a new political agenda.

Hey, I can dream.

Have a great week. Find a few books and some friends and enjoy your summer.

Your hoping to get us talking about productivity analyst,



John Mauldin

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