The Daily Dish

Pro-Growth Policy

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House Republicans are urging the Obama Administration to hold off on boosting business ties with Iran amid Trump's election. Congressional leaders fear that the Obama Administration's actions aimed at bolstering international investment in Iran could complicate policies that may be pursued by President-elect Trump, who opposes the Iran deal. Earlier this month the House passed a bill extending sanctions on Iran. The Senate is expected to pass the bill in the coming days and GOP leaders have argued that President Obama should sign the extension on Iran sanctions once the bill comes across his desk.

Last week the American Action Forum (@AAF) released an analysis examining the state of American infrastructure. The AAF analysis finds that the declining state of U.S. infrastructure cannot solely be blamed on spending reductions, but on changes in infrastructure needs. Additionally, the report recognizes that the quality of infrastructure spending has likely decreased, thereby requiring more spending to achieve equitable results achieved in previous years with less spending.

Eakinomics: Pro-Growth Policy

The poor performance of the economy — average annual growth in Gross Domestic Product (GDP) of 2.1 percent since the end of the recession in June, 2009 — has been projected to continue for the foreseeable future. This has prompted considerable interest in "pro-growth" policies from the new administration and Congress. What would that look like?

The economics of macroeconomic growth is really quite simple. GDP is produced using capital, labor, technologies and business models. Growth occurs when more capital, labor and better technologies are combined to generate more output. One way to do this is business cycle recovery, during which existing capital (shuttered factories, idle production lines), labor (the unemployed), and technologies are put back to work. That can happen quickly and has generated some very rapid (as fast as 16.9 percent at an annual rate) quarterly growth rates.

The other way to grow is to accumulate more capital, have more workers, and create new technologies. This comes in two flavors. One possibility is to change the level of, for example, the amount of labor in the economy. The labor force participation rate could rise by several tenths of a percentage point, increasing the total supply of labor in the economy. During the transition to the higher rate of participation, the economy would temporarily grow more rapidly. The second possibility is that the underlying growth rates of capital, labor and innovation accelerate due to more investment, more rapid labor force growth, or additional innovation.

Since the economy has essentially recovered from the recession, any pro-growth policy must focus on the latter two channels. Tax reform can help to channel capital to its most productive uses, a one-time increase in efficiency that will raise growth for a while. It can also be a tool for greater labor force participation, which would have a similar effect. Tax reform can also raise the pace of investment and innovation, which will result in a permanent upshift in the GDP growth rate. Regulations are disguised taxes, so regulatory reform can have similar impacts. Infrastructure investments can be targeted to raise productivity and growth.

Pro-growth policies are a philosophy that examines every opportunity in these (and other) areas to enhance the growth in productive resources. More importantly, it is being vigilant for those occasions when other policy initiatives may too greatly damage these objectives.