Business and Economics Journal

Cebula and Capener, Bus Eco J 2015, 6:2
http://dx.doi.org/10.4172/2151-6219.1000141

Opinion Article Open Access

Public Policies for the 21st Century: Guidelines for the U.S. (and Elsewhere)

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Received date: March 15, 2015; **Accepted date:** March 17, 2015; **Published date:** March 24, 2015

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Introduction

The Great Recession was a near-global phenomenon that left many unemployed in its path. Indeed, the numbers of long term unemployed (many of whom dropped out of the labor force between 2008 and 2012 and therefore are not accounted for in the current unemployment rate) in the U.S. is at record levels. Many nations, such as the U.S., reacted to the Great Recession with huge spending increases, largely transfer payments with very small net multipliers. These transfer payments generated massive budget deficits that elevated the national debt to all-time records when expressed as a percentage of GDP. Furthermore, in the U.S., the national debt has in recent years surpassed 90% of the value of GDP, a condition that has been found to reduce annual long term growth by as much as 1%.

A huge expansion of government regulations, often in the name of a “public safety” or “combatting global warming” have been introduced in recent years. Yet, it has not scientifically proven that global warming results primarily through burning fossil fuels or through deforestation. In addition to more stringent environmental regulation, income tax rate increases were enacted while the economy was still dragging.

These policies failed to create a significant post-recession recovery, an experience at odds with the economic events following past recessions in the U.S. Moreover, given the central role of the U.S. economy in world economic events, if something goes awry in the U.S., it has broad implications for many other nations, as was the case with the Great Depression.

U.S. policy-makers have failed to implement the policy choices that have been consistently found to enhance economic growth. Such policies include increasing economic freedom, increasing the quality as opposed to quantity of regulation, and lowering tax burdens. A broad and varied literature in economic, finance, and management provides compelling empirical evidence that these policies, if carefully crafted, act to elevate both the growth rate of real GDP and the growth rate of per capita real GDP.

Policies such a low corporate tax rates and the elimination of onerous regulations for entrepreneurs seeking to start businesses can transform an economy. Policies that enhance economic growth have been shown to provide opportunities and incentives that significantly encourage entrepreneurship and private enterprise in general. Indeed, enhanced opportunities and incentives for entrepreneurs are very significant vehicles for the transformation of these economic policies into actions that benefit the economy as a whole. Increased entrepreneurship increases research and development, increases innovation and investment, stimulates growth in the exchange of goods and services, and promotes greater efficiency in the production of goods and services. Additional findings supportive of such policies include a reduced unemployment rate, and, over the long run, higher real wages and elevated living standards. Thus, there are myriad economic and social benefits to be reaped.

High budget deficits, increased national debt levels, increased taxes, and increased government outlays that address the symptoms of poverty and unemployment rather than the causes thereof are a failure of leadership and governance. A policy that enhances economic growth must also include actions that address the training and education of the poor, those receiving government assistance should be required to complete this training and be offered additional educational opportunities so they can lift themselves out of poverty and unemployment (or underemployment). The longer the government waits to adopt efficient, proven policies to combat poverty and employment issues, the bigger the price tag of success and the longer the time that will be needed to achieve success.