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AS PREPARED FOR DELIVERY:

Creeping stagnation ought to be recognized as the central economic issue of our time. Economic growth since 2000 has fallen almost by half compared with the last half of the 20th Century. The average American's income is already a quarter less than under the previous trend. If this trend continues, lost growth in fifty years will total three times today's economy[2]. No economic issue — inflation, recession, trade, climate, income diversity — comes close to such numbers.

Growth is not just more stuff, it's vastly better goods and services; it's health, environment, education, and culture; it's defense, social programs, and repaying government debt.

Why are we stagnating? In my view, the answer is simple: America has the people, the ideas, and the investment capital to grow. We just can't get the permits. We are a great Gulliver, tied down by miles of Lilliputian red tape.

How much more can the US grow? Looking around the world, we see that even slightly better institutions produce large improvements in living standards. US taxes and regulations are only a bit less onerous than those in Canada and the UK, but US per capita income is 40% greater.[3] Bigger improvements have enormous effects. US per capita income is 350% greater than Mexico's and 950% greater than India's. Unless you think the US is already perfect, there is a lot we can do.

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[2] Real GDP 1950:I was $2186 billion, and per capita $14500; in 2000:I, $12935 and per capita $45983; in 2022:IV, $20182 and per capita 60376. From these numbers, average log real GDP growth 1950-2000 was 3.56% From 2000-2002, 1.96%. In per capita terms, 2.31% and 1.20%. (2.31-1.20)x22 = 24.4. $e^{50\times0.0356} = 5.9$. $e^{50\times0.0196} = 2.7$. $5.9 - 2.6 = 3.2$.

[3] Calculations based on purchasing-power-adjusted GDP per capita: US $69,287, Canada $52,790, UK $50,890, Mexico $19,587, India $7,242. Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD The PPP adjustment tries to take account that some things are cheaper in other countries. Converting at the exchange rate produces even larger differences. US $70.248, Canada $51,987, UK $46,510, Mexico $10,065, India $2,256. Source: https://data.worldbank.org/indicator/NY.GDP.PCAP.CD

How can we improve the US economy? I offer four examples.

I don't need to tell you how dysfunctional health care and insurance are. Just look at your latest absurd bill.

There is no reason that health care cannot be provided in the same way as lawyering, accounting, architecture, construction, airplane travel, car repair, or any complex personal service. Let a brutally competitive market offer us better service at lower prices. There is no reason that health insurance cannot function at least as well as life, car, property, or other insurance. It's easy to address standard objections, such as preexisting conditions, asymmetric information, and so on.

How did we get in this mess? There are two original sins. First, in order to get around wage controls during WWII, the government allowed a tax deduction for employer-based group plans, but not for portable insurance. Thus preexisting conditions were born: if you lose your job, you lose health insurance. Patch after patch then led to the current mess.

Second, the government wants to provide health care to poor people, but without visibly taxing and spending a lot. So, the government forces hospitals to treat poor people below cost, and recoup the money by overcharging everyone else. But an overcharge cannot stand competition, so the government protects hospitals and insurers from competition. You'll know health care is competitive when, rather than hide prices, hospitals spam us with offers as airlines and cell phone companies do.

There is no reason why *everyone's* health care and insurance must be so screwed up to help the poor. A bit of taxing and spending instead — budgeted, appropriated, visible — would not stymie competition and innovation.

Example 2: Banking offers plenty of room for improvement. In 1933, the US suffered a great bank run. Our government responded with deposit insurance. Guaranteeing deposits stops runs, but it's like sending your brother-in-law to Las Vegas with your credit card, what we economists call an "incentive for risk taking." The government piled on regulations to try to stop banks from taking risks. The banks got around the regulations, new crises erupted, new guarantees and regulations followed. This spring, the regulatory juggernaut failed to detect simple interest rate risk, and Silicon Valley Bank had a run, followed by others. The Fed and FDIC bailed out depositors and promised more rules.

This *system* is fundamentally broken. The answer: Deposits should flow to accounts backed by reserves at the Fed, or short-term treasuries. Banks should get money for risky loans by issuing stock or long term debt that can't run. We can end private-sector financial crises forever, with next to no regulation.

There is a lesson in these stories. If we want to improve regulations, we can't just bemoan them. We must understand how they emerged.

As in health and banking, a regulatory mess often emerges from a continual patchwork, in which each step is a roughly sensible repair of the previous regulation's dysfunction. The little old lady swallowed a fly, a spider to catch the fly, and so on. Now horse is on the menu. Only a start-from-scratch reform will work.

Much regulation protects politically influential businesses, workers, and other constituencies from the disruptions of growth. Responsive democracies give people what they want, good and hard. And in return, regulation extorts political support from those beneficiaries. We have to fix the regulatory *structure*, to give growth a seat at the table.

Economists are somewhat at fault too. They are taught to look at every problem, diagnose "market failure," and advocate new rules to be implemented by an omniscient, benevolent planner. But we do not live in a free market. When you see a problem, look first for the regulation that caused it.

Example 3: Taxes are a mess, with high marginal rates that discourage work, investment and production; disappointing revenue; and massive, wasteful complexity. How can the government raise revenue while doing the least damage to the economy? A uniform consumption tax is the clear answer. Tax money when people spend it. When earnings are saved, invested, plowed into businesses that produce goods and services and employ people, leave them alone.

Example 4: Bad incentives are again the unsung central problem of our social programs. Roughly speaking, from zero to about sixty thousand dollars of income, if you earn an extra dollar, you lose a dollar of benefits. Fix the incentives, and more people will get ahead in life. We will also better help the truly needy, and the budget.

Some more general points unite these stories:

Focus on incentives. Politics and punditry are consumed with taking from A to give to B. Incentives are far more important for economic growth, and we can say something objective about them.

Find the question. Politics and punditry usually advance answers without stating the question, or shop around for questions to justify the same old answers. Most people who disagree with the consumption tax really have different goals than funding the government with minimum economic damage. Well, what do you want the tax system to do? State the question, let's find the best answer to the question, and we can make a lot of progress.

Look at the whole system. Tax disincentives come from the total difference between the value your additional work creates and what you can consume as a result. Between these lie payroll, income, excise, property, estate, sales, and corporate taxes, and more, at the federal, state, and local level. Greg Mankiw figured his all-in marginal tax rate[4] at 90%, and even he left out sales, property, and a few more taxes. Social-program disincentives come from the *combined* phaseout of food stamps, housing subsidies, medicaid or Obamacare subsidies, disability payments, tax credits, and so on, down to low-income parking passes. And look at taxes and social programs together. A flat tax that finances checks to worthy people is very progressive government, if you want that. Looking at an individual tax or program for its disincentives or progressivity is silly.

The list goes on. Horrible public education, labor laws, licensing laws, zoning, building and planning restrictions, immigration restrictions, regulatory barriers, endless lawsuits, prevailing-wage and domestic-content rules, are all sand in the productivity gears. Oh, and I haven't even gotten to money and inflation yet!

And that just fixes our current economy. Long-term growth comes from new ideas. Many economists say we have run out of ideas; growth is ending; slice the pie. I look out the window and I see factory-built mini nuclear power plants that the Nuclear Regulatory Commission is strangling; I see a historic breakthrough in artificial intelligence, facing an outcry for the government to stop it. I see advances in biology that portend much better health and longevity, but good luck getting FDA approval or increasingly politicized research funding.

Many conservatives disparage this "incentive economics" as outdated and boring. That attitude is utterly wrong. Incentives, and the freedom, rights, and rule of law that preserve incentives, remain the key to tremendous and widespread prosperity. And it is hard work to understand and fix the incentives behind today's problems.

Yes, supply is less glamorous than stimulus. "Fix regulations" is a tougher slogan than "free money for voters." Efficiency requires detailed reform in every agency and market, the Marie-Kondo approach to our civic life. But it's possible. And we don't need to reform all the dinosaurs. As we have seen with telephones, airlines, and taxis, we just need to *allow* new competitors, to *allow* the buds of freedom to grow.

Many people ask, "How can we get leaders to listen?" That's the wrong question. Believe in democracy, not bending the emperor's ear. Take action. My fellow prizewinners have

[4] http://www.nytimes.com/2010/10/10/business/economy/10view.html

grabbed the levers of influence that belong to citizens of our free society, and done hard work of reforming its institutions. And ideas matter. The Hoover Institution motto is "*ideas* defining a free society." The Bradley Foundation tonight celebrates good *ideas*, and is devoted to spreading them. When voters, media, the chattering classes, and institutions of civil society understand, advance and apply these *ideas*, politicians will swiftly follow.

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