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**Newt Gingrich's Remarks from the AEI-Brookings Joint Center
Event: "Markets vs. Government"***

Newt Gingrich[†]

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[†] Senior Fellow, AEI.

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Newt Gingrich

I am delighted to be here. When Chris DeMuth first called and asked me to read Cliff's book and to think about doing this panel, I could not imagine a better time to be here. This is a very important work, much more important than its size, because it begins to re-center a dialogue.

I want to pick up on Cliff's outline but first let me just comment on his debate comment about last night. I personally was deeply reassured when one of the moderators wasted the country's time by asking the Republican candidates if they thought it would be good or bad for Bill Clinton to be back in the White House. In terms of a total degeneration into the Entertainment Tonight model of politics – the idea of saying to Republican candidates, do you think it would be good or bad for Hillary Clinton to win, is an example of why I think this book is important. We are in a banal period of thought avoidance in our entire political process.

Yet there's a wonderful article, could not have been better timed for this morning, by Leo Malamud in yesterday's *Wall Street Journal*, called "The American Century." He made the case that our margin for policy errors has diminished radically. All of the advantages we had coming out of the Second World War, in which we were the only unscarred industrial power; all of the advantages we had by having the world's scientists flee to us from communism and Nazism; all the advantages we had by being a first leader in jet aircraft, computers and other technologies, are rapidly disappearing. We are about to find ourselves in the next twenty years in a very competitive world in which either we get our act together and quit wasting resources and quit slowing our own opportunities, or we will in fact rapidly cease to be the most prosperous, the most powerful and the freest nation in the world. It's a very compelling case.

I happened to do an event about two weeks ago for Mayor Bloomberg where the New York City financial community's focused on a McKinsey report that says by the end of the decade, London will probably pass New York as the financial center of the world for the first time since before the First World War. Americans need to understand how

real this is. This is about real incomes, real opportunities, real wealth creation, real power on the planet. The political process in this country is sleepwalking, and it is sleepwalking in part because it has no coherent intellectual alternative to fighting over more or less redistribution and more or less bureaucracy.

I'm taking a leap of faith here in the entire Brookings-AEI project on regulatory studies and microeconomics to say I think that in this book is the seeds of a fundamental revolution in public dialogue in the United States. But to have that happen, people who focus on public communication have to work very closely with people who know an immense amount about microeconomics, to translate it for the American people. In the next few minutes I want to try to do that.

In a sense, what I would argue is that Fabian socialism was a brilliant long-term strategy launched in London in the late 19th century, which came to dominate the academic, news media and political classes to such a degree, compounded by the impact of Ludendorff's war economy and the rise of a left-wing academic belief that power over others is wonderful and those who have PhD's should have the power. That has been the dominant theme in this country since 1932. I commend strongly to you a book that will come out in June by Amity Shlaes called *The Forgotten Man*, which illustrates how this process occurred and how decisively the U.S. left an earlier model.

Cliff's description – he had one particular phrase that I think by itself could dramatically change the conversation in this country if we could find a way to explain it, make it vivid, bring it into national debate. That is the degree to which government failure imposes large costs. I want to repeat this because this is not a discussion we have in this country in a coherent manner. Government failure imposes large costs. Nobody who dominates the Congress is going to hold hearings on government failure. Nobody in the bureaucracy is going to jump up and say, please come and look at how we destroyed something yesterday. In the left-wing-dominated academic world of the last seventy years, government is the answer and not the problem. Let me give you a couple case studies.

In 1960, South Korea and Ghana had precisely the same per capita income. Now it is inconceivable to me that the World Bank has not looked at the question, why did one succeed and the other not? You can say one's a Confucian society defended by the

United States, therefore has all sorts of advantages. Okay. Ireland and Germany have changed relative position in per capita income in the last thirty years. The Bundesbank now projects that Ireland will be the wealthiest country in Europe per capita. It is a low-tax, education reform, work ethic, pro-investment country. Obviously, clearly wrong. In fact, Brussels complained that the Irish tax rate was too low and that they were therefore cheating, and that in order to slow down to the rate of the rest of Europe – this is true, I was at the Teashock in Dublin the day this came out. He said, are these people just crazy? I said yes. It's not economic but the psychology part of my background, I believe yes. Sometimes when you see people are nuts, you should say they're nuts.

So what I want to suggest that the edge of, and that I want to encourage Cliff and Bob to really lay out a strategic plan for the application of microeconomics to the development of a coherent series of policy options, is the following. We should look for principles that work and principles that fail. As a general rule, we should follow the principles that work. I know this is bold. But let me walk you through some case studies.

Paul Johnson, by the way, in “Modern Times” has a chapter on the failure to modernize, industrialize and make wealthy sub-Saharan Africa, and says it is largely due to the impact of the London School of Economics and the Sorbonne on educating a generation of independence leaders in the policies that are guaranteed to fail. Nobody takes this critique seriously and yet it's almost certainly true. When the current UN group runs around saying send more foreign aid, nobody gets up and says as long as Zimbabwe's being destroyed and as long as dictators who are kleptocrats are tolerated, you're not going to get success. Humans are going to suffer. Nobody gets up on behalf of the people suffering and says this is a travesty. Yet that's the core of the phrase that Cliff put up.

Let me go a step further. Shaping markets – and I want to draw a distinction here. I am not a laissez-faire, governments should cease to exist – I'm not anti-government per se. I'm a federalist. The Federalists included among their numbers Alexander Hamilton, who is as clear an advocate of shaping markets as we've ever had and was a student of Adam Smith – who by the way is an advocate of shaping markets when values force you to do so, particularly national security. If you read the first report on finances and the

debt, and you read the first report on manufactures – both by Hamilton – you understand he had a very clear sense that values define the shape of the market. But he also had a clear sense that if you wanted to achieve a better future, governments should shape the market, governments shouldn't run the market. There's an enormous difference in these two models.

Prior to 1932, we had a very deep tradition. There's interesting differences about what happens after 1932. As I said, Amity Shlaes' new book really helps create this.

The first is, prior to 1932, the American model was incentives rather than bureaucracy. You want to build transcontinental railroads? You give away land. Somebody out there will figure out this will be a good way to get rich. They will work really hard. They'll build a transcontinental railroad really fast. My guess is had we adopted that model towards space, we would today have a permanent base on Mars, because you wouldn't have had a large, cumbersome, inefficient and largely backwards bureaucracy throwing away the money on obsolete systems in a very slow way. You would have people who get up every morning – and you read about the history of the transcontinental railroad, it was amazing.

But we had a clear sense of the future. We had a way of subsidizing things. But subsidies are different than bureaucracies.

Second, the focus prior to 1932 was on accelerating production rather than redistributing wealth. Fundamental difference. Every generation prior to 1932 got up saying America will be better, America will be bigger, America will be richer. The faster we accelerate our productivity, the more people are going to rise. Therefore our objective is the most productive society on the planet. After 1932, the elites adopted the idea that growth is over and the only way to get to a better future is to redistribute wealth. These are fundamentally different strategies and they lead to fundamentally different futures.

Since 1932, for seventy-five years, we have followed a model that is bureaucratic, command and control, centralized, litigation-reliant and rule-based. Public administration seeks public policy solutions within this failed framework. One of the reasons why I think this book is so important is as an opening dialogue of saying, wait a second, what if we applied a different standard of analysis? What if we asked ourselves, are these really the right ways to do it?

The easiest explanation I can give you for where we are is that seventy-five years of reliance on bureaucracy, reliance on command and control – it's a very funny thing. It's as though South Korea had failed and Ghana had succeeded. It's as though the Soviet Union were the dominant model intellectually and that somehow we really do believe – Gorbachev, I was told by somebody who was there, once had dinner after the fall of the Soviet empire with a group of faculty at Stanford, several of whom were arguing that communism could have worked if it had been run better. After a while, Gorbachev in exasperation said you have to be an American faculty member to believe this.

Let me try to summarize this in easy-to-understand language. What Cliff is writing about is very academic, very intellectual, and yet its implications for public policy are extraordinarily real. By following this model of centralized bureaucracy and command and control, we have created two worlds which all of you live in.

I just want to share this with you for a second and think about it, test it in your own mind. Over here is a world of failed 1965 bureaucratic rules and regulations that is rigid, cumbersome, stunningly inefficient and actually limits the opportunity for productivity and innovation. Over here is a world that is based on Drucker and Deming and Juran, on market forces, on entrepreneurial behavior. It has led to the Toyota production system, it has led to lean manufacturing, it has led to Six Sigma. These two systems coexist. You live in both these systems.

Two quick examples. How many of you have ever gone online to check the location of a package at UPS or FedEx? In a room this sophisticated, it's virtually universal. So I'm going back to the point Cliff is making – this is not a theory. The market has led to the capital investment and the information technology and a corporate culture which is that productive. It can track millions of packages simultaneously in virtually real time. This is a fact. You experience it in your own life.

Over here is, for example, the federal government, which cannot find between 11 and 13 million undocumented workers. Look at these two information systems. I've argued as a public policy matter, and I would be glad to have Cliff analyze it later and tell me if it's correct, that if we simply allocated \$200 million to send a package to each person who's here illegally, that within 48 to 72 hours UPS and FedEx would have found

them, we'd know where they are. It is so grotesque, it's funny, right? And yet in this city and frankly in most of the public administration and public policy and government courses in the country, you cannot get them out of the world that failed. You can't get them over here and say, gee, how can we have this radical improvement in productivity?

Second example. How many of you have gotten money out of an automatic teller machine outside the U.S.? Very traveled group. Again, this is not a theory. You can walk up to an anonymous machine 24 hours a day, 7 days a week, in a foreign city, put in a plastic card, punch in a four-number code, it reaches out 7,905 miles, validates who you are, verifies you have the cash, translates it into the local exchange at a slightly bad rate but better than your hotel, gives you the cash. It took eleven seconds. So this is a system that works.

Now there's a hotel in California under injunction by a California state judge for trying to fire thirteen people with false documents, on the grounds that false documents is not a firing offense in California. One of them is a person who is the 43rd person to have the same social security number. Take the difference in efficiency and effectiveness between your automatic teller machine card, which you trust enough to open up your bank account across international borders, and the fact that the federal government couldn't figure out not just that number 2, 3, 4 and 5 were – they haven't figured out that number 43 exists. Which is why I've said that when we inevitably go to a worker identity card with biometrics and probably a thumbprint and retinal scan, that it has to be outsourced to Visa, MasterCard or American Express. There is no possibility that the federal bureaucracy could do this.

Let me carry this a step further because I want to drive home how important this model is, and how important it is for people like me to work closely with people like Cliff to begin to build a rhythm of – and it really is Fabian conservatism. It is an effort to say over a long period of time we can win the intellectual argument, we can create a new way of understanding what works. We can in fact come to dominate the public policy debate because this works better.

Four simple concepts. A science and technology-based, entrepreneurial free market should create more choices of higher quality, at lower cost, with greater convenience. This is a language you can use with everyday Americans that does not

require them to get a PhD in microeconomics. You can say to them: would you like to have a system, one that works, where you get more choices of higher quality, at lower cost, with greater convenience, or would you rather have a system over here where you get fewer choices of lower quality, at higher cost, with greater inconvenience? It's not complicated.

Three closing examples. We've got a workshop called "American Solutions" on September 27 which is going to be nationwide and which is aimed at all 511,000 elected officials in the United States, trying to bring these kinds of ideas into the fundamental transformation of government, almost parallel to what the progressive movement did in modernizing government at the end of the 19th and the beginning of the 20th century. I think microeconomics plays a very key role in providing a rigorous intellectual underpinning to allow us to have genuine arguments about what the right policies ought to be and what the costs of the wrong policies are.

Green conservatism is an example of that. We believe that by shaping the market and creating incentives, we can migrate to a radically better future. Again, you can have a debate over the values. Do you want a value-neutral market or do you want to have a market where you're shaping incentives based on values? But if you do want to have a system that has, for example, less carbon-loading of the atmosphere, I will guarantee you that an incentive-based and prize-based marketplace is going to get to solutions radically faster than a litigation and regulation-based model. That's the kind of argument where we actually need the economists to be directly and vigorously and aggressively engaged. The research proposals that Cliff has at the very back of his book are vital to shifting the debate away from purely technical economics into a policy economics which is engaged in trying to find solutions and trying to make the case.

Let me tell you one other quick example and then I'll close with two stories and look forward to your questions. The other example is another marketplace example that is so stunningly stupid that it is amazing to me it hasn't become part of the national myth – myth in the cultural sense – and people don't understand it.

Governor Mike Leavitt, when he was about to come to Washington to get a federal job, calls his insurance company. This is all public, Mike has said this in speeches. He says, I have sleep apnea. For the last six years, I have used a machine so I

can sleep at night. It's about worn out. I want to buy two machines so that I can bring one from my home and put one in my suitcase, because I'm going to travel a lot. The insurance company says no, we only buy one machine. It will be \$950; your copay is 20 percent. That's \$190. So Leavitt wasn't happy but he went online – think about these numbers. He went online and he found the same company and the same machine for \$375. So he calls back to the insurance company and says, hi. We could buy two machines for \$750 and my copay would be \$150. You'd save money, I'd save money, you'd have a happier customer. They said to him, like all large, centralized bureaucracies – because you can have private-sector bureaucracies fully as stupid as the federal government. This is not a peculiarly federal characteristic. They said to him, no, we have a long-term contract. The price is \$950, your copay is \$190. Leavitt only sent a letter in dropping his insurance and going to a health savings account model, on the grounds he didn't want to be associated with a company this stupid.

But I want all of you -- the largest single public policy debate of the next ten years will be over health. I actually love the phrase “Hillary-Care, Obama-Care or who cares,” because it's exactly right. Everybody in the current debate is trying to figure out a truly stupid solution inside a model that doesn't work. Americans are good shoppers. Imagine the idea that we went to the average American and said, hi, you could pay \$375 but why would you pay that when you could pay \$950? They'd think you were insane. Yet until we're prepared to address this directly, we're not going to work.

Here's my last two examples, just to show you how absurd the current debate is in the world that doesn't work and why we desperately need to go to books like this and look clearly at the lessons we can learn and policies we can develop. I've come up with two proposals that fit the world that doesn't work.

The first is, I was on a cruise last summer in the Mediterranean when people were busily complaining because there were too many choices in Medicare Part B and it was confusing senior citizens. I suddenly realized the underlying base of the fact – when you have too many choices for senior citizens, they can't really figure out what to do. They're getting ripped off by a system. I suddenly realized that there are many cruises that leave from many different places and go to many different ports and have many different prices depending on which package and which room, and that the cruise

industry is in a conspiracy to rip off senior citizens.

So I'm hoping to get Cliff to help me with this. We're trying to develop a bill called Medicruise. Medicruise will create a federal department of cruising for seniors that will be co-located in Baltimore with the Center for Medicare and Medicaid Services – probably hire about fifteen people from CMS – and it will scan the planet. It will pick the three most appropriate cruises, negotiate for rebuilding the ships so that every room will be exactly the same value. That is, if you have a better view you get a smaller room, so the further down you are on the ship the bigger your room. Absolutely equal value. The meals will be approved by the federal government and we will make it illegal for seniors to spend any of their own money on cruises because we don't want them to risk being ripped off.

When I tell audiences this around the country, they think it's insane. I just described Medicare.

But it's such a good program we're going to follow up with Medi-WalMart. There are 258,000 choices in a WalMart superstore – clearly an effort to confuse seniors. Then they viciously put somebody older out front to pretend to be happy and smiling. So we want to propose Medi-WalMart, which will instruct WalMart to put every senior-appropriate purchase in the first four aisles and then have a barrier you can only get through by proving you're under 65, so that seniors will not risk confusion by having too many.

When you think that through, you think, this is crazy. I just described Washington.

So what I think this book does is help create the intellectual beginnings to move the entire public debate, rather than being mired down in policies that don't work, to say, why don't you choose systems that work rather than systems that fail? I hope that we will seriously follow up with a number of other studies that Cliff outlines at the back of this book. Thank you very much.