



FREEDOM TO INNOVATE AND COMPETE

The free enterprise system is the most reliable price-suppressing system ever devised. Yet across large swaths of the U.S. economy, government has subsidized and protected favored businesses or sectors and squelched innovation and open competition. In some instances, government has become a direct industry participant as an owner, operator, or guarantor. This chapter identifies areas where the state needs to withdraw and allow private innovation and competition to produce the abundant supply needed to bring down inflation.

Widespread and dynamic innovation is only possible when people are allowed to reap the benefits of the new ideas they develop and bring to the market. Most ideas never turn into commercially successful ventures. Innovators may have dozens of small failures before achieving a big breakthrough. If lawmakers and regulators squeeze out the profits in the good times, fewer innovators and investors will be willing to suffer through the lean years. Without innovation, there is stagnation and scarcity.

But regulation, taxes, and other restrictions aren't the only ways the government can reduce an industry's competitiveness. One of the worst things the government can do for an industry is to use its financial resources and authoritative powers to try to support it. When the government takes an ownership interest in a business or bails out an industry, it signals that a key to success is proximity to power and staying in the good graces of the state. Businesses then shift resources and focus away from satisfying customers and toward satisfying lawmakers and regulators.

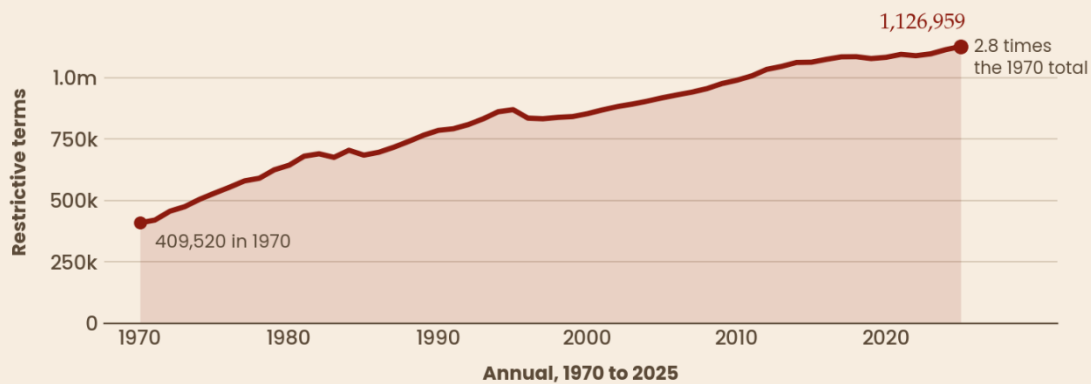
This chapter discusses several policy changes that would help reinvigorate innovation and competition in different parts of the economy. It describes the potential of artificial intelligence and data centers to raise productivity and living standards—if lawmakers and regulators don't stand in the way. It discusses barriers that should be removed to promote more research and development in pharmaceuticals and other industries. Several memos focus on specific industries where the government is an active participant, and where privatization is needed. Finally, it proposes ways that the courts and Congress could better act as checks on the expansion of the regulatory state.

Free enterprise is the key to innovation and competition. When countries abandon free markets, they are doomed to stagnation and scarcity. But if America embraces innovation and market competition, greater abundance and affordability are possible.



The regulatory code has nearly tripled since 1970

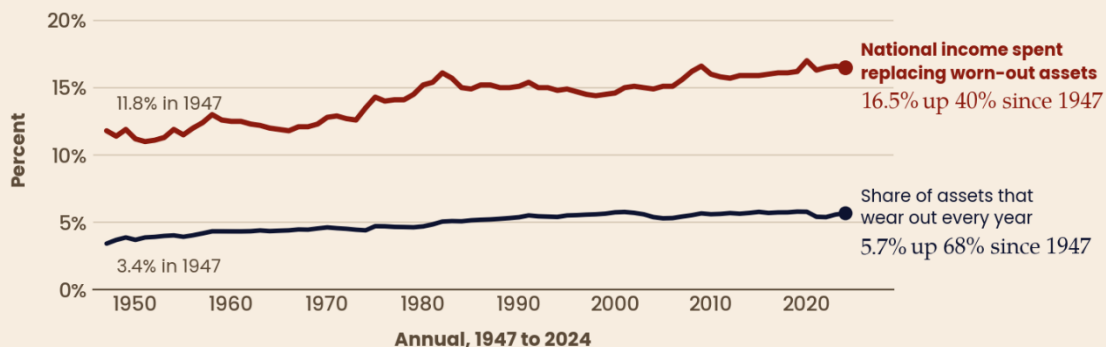
Restrictive terms in the Code of Federal Regulations



Source: Mercatus Center at George Mason University, QuantGov RegData: counts of restrictive terms (i.e., shall, must, may not, required, prohibited) in the Code of Federal Regulations, summed across every title and part in each year. This counts restrictive language, not rules, and does not weight by significance.

The machines, buildings, and software that run the economy wear out faster

How fast America's productive assets wear out, and how much goes toward replacement



"Assets" above refers to physical productive assets, e.g., machinery, equipment, vehicles, factories and other structures, software, and intellectual property, not money or financial assets. Source: U.S. Bureau of Economic Analysis, Shares of Gross Domestic Income: Consumption of Fixed Capital (A262REIA156NBEA), and Consumption of Fixed Capital: Private (A024RC1Q027SBEA) divided by the Current-Cost Net Stock of Fixed Assets: Private (KIPTOTLIES000) — via FRED.