2023 YPO Economic Summit:
Building a Better America – The Choices Before Us

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February 10, 2023

Good News and Bad News



Good News and Bad News





Good News and Bad News







The "Good" News

- U.S. Unemployment Rate: 3.4%
- Nominal Income Proxy (Hours worked x Ave. Hourly Earnings)
  - Up 8.9% in January
  - Up 21% in last 3 years!
- S&P 500:
  - Up 18% in last 4 months
  - Up 70% since March 15, 2020
  - Up 21% since February 10, 2020
- Real GDP grew 2.9% in Q4 (…and 3.2% in Q3)
- Yet….(Inventories bloated, personal savings from $4.9 trillion to $600 billion in 2 ½ years, recession looming…?)

The State of the Union Revisited

Issues:

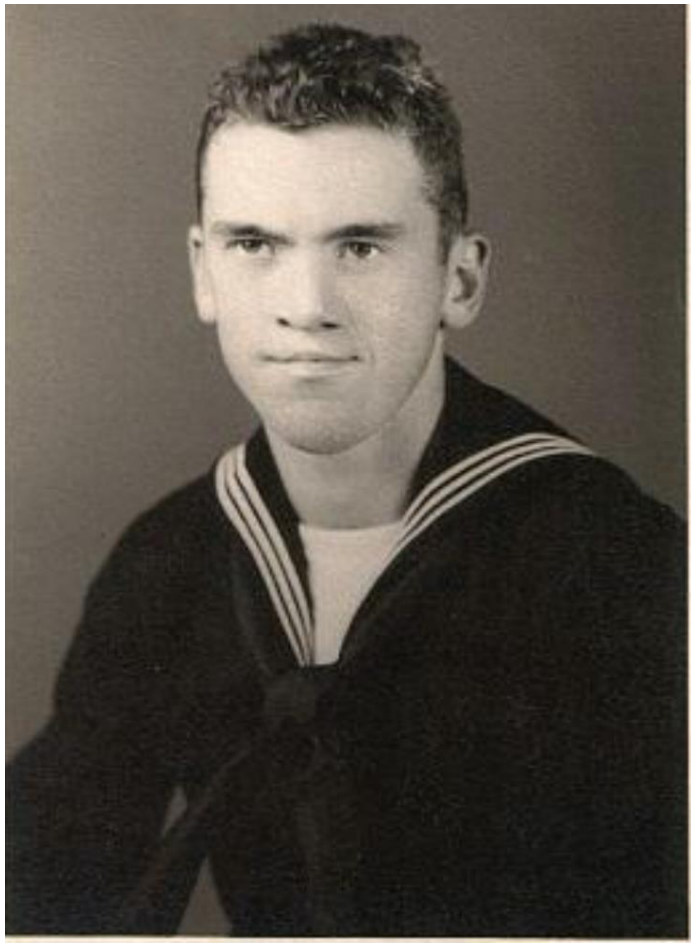
- "Buy American"
- Cap drug prices
- Transaction tax on stock repurchases
- "Junk Fee Protection Act"?
- Resort fees?
- Baggage fees?
- Non-compete agreements for McDonald's workers?



Economic Competitiveness

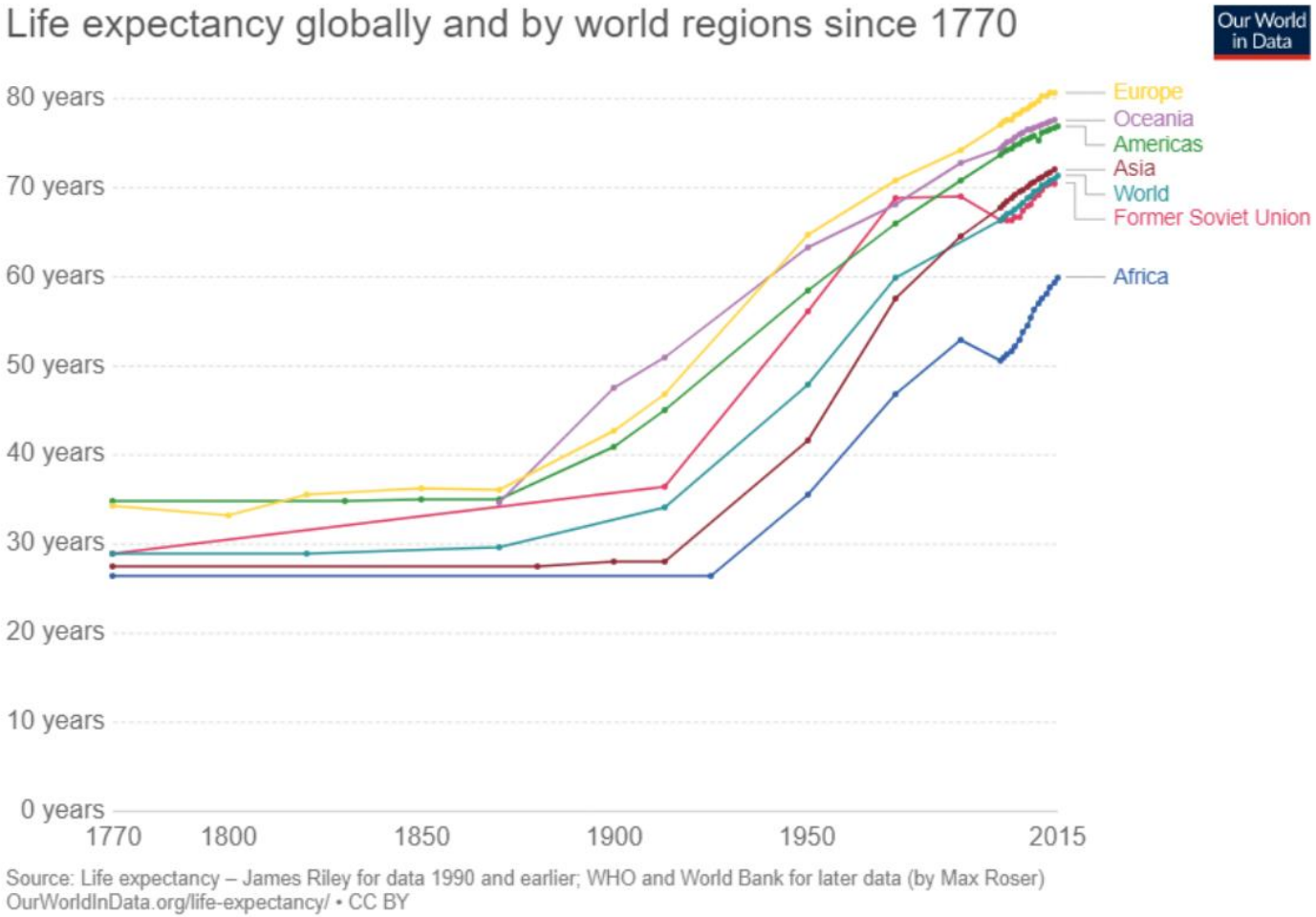
- How we will make the United States more competitive in the world economy
- How we will deliver a better standard of living for future generations
- How we will make America more secure in a technologically complex and still dangerous world
- How we will deliver long-term economic growth
  - Growth, not redistribution, has delivered the most good for the greatest number of people
  - ➔ ***"Leave it better than we found it"***

Context



- Born 97 years ago this week
- “The greatest time in human history to be alive”

Human Life Expectancy



The Greatest Time…

300 million deaths in 20th century from smallpox: now zero

A reduction of 2 billion people living on under $2/day

Access to global communications, health care, potable water, health care

The U.S. Economy

	1946	1980	2021
U.S. GDP	$228 B	$2.9 T	$23 T
GDP Growth	-11.6%	-0.3%	5.9%
U.S. Household Net Worth	$885 B	$10.4 T	$142 T

- ✓ *Many don't realize It*
- ✓ *Things are NOT terrible*
- ✓ *What about the future?*

"The Forty Fat Years"

The Symptoms:

- U.S. GDP grew 3x after inflation
- Household net worth increased 14x
- Productivity growth and innovation
- Low inflation
- 35-year decline in crime

The Building Blocks:

- Leadership in Research & Development
- Support for free and increased trade
- Access to talent
- Quality universal public education
- Access to capital for growing companies
- Strong crime laws and increased police presence

"Unforced" Policy Errors: Inflation

- **Tariffs:**
  - **6x higher than before 2014**
  - **Covers 66% of goods from China**
  - **Tariffs on European steel and aluminum**
  - **Tariffs on lumber, solar products, aluminum from Canada**
- **Energy Production:**
  - **Ban on drilling on Federal lands**
  - **New expensive rules on soot and mercury**
  - **Renewable mandates on electric power**
- **Fiscal policy**
  - **$6 trillion in new deficits in last 3 years!**
  - **Medicaid enrollment now 91 million vs. 56 million before ACA**
  - **Interest on debt could soon exceed $1 trillion/year**

✓ *"Deglobalization" will mean higher prices*

✓ *Restrictions on domestic energy production and electric power generation will mean higher prices*

✓ *Excessive Federal spending will mean higher prices*

"Unforced" Policy Errors: Fiscal Priorities

	1992	2022	Growth
Medicare	$116 B	$753 B	6.5x
Medicaid	$71 B	$746 B	10.5x
U.S.GDP	$6.4 T	$24.2 T	3.8x

% of Federal Budget going to "Payments to Individuals":

1960: 26%
2017: 72%

Source: OMB

"Unforced" Policy Errors: Defense & National Security

- **Defense Spending:**

	Annual $	% of GDP
1989:	$304 billion	5.5%
2022:	$766 billion	3.2%

- **Alliances:**
  - **Saudi government: "No socially redeeming value"**
  - **Revive JCPOA with Iran?**
- **Capability**
  - **Reagan target: 600 ship Navy; today: 134 (plus reserves)**
  - **Length of time to develop F-35: 23 years**
  - **Growth in Pentagon retirement and health spending**
- **Meanwhile:**
  - **"*Insurgents Hack U.S. Drones*", *WSJ***
  - **"*Ukraine hit by wave of Iran drones*", BBC**

Niall Ferguson:

…"The Fatal Arithmetic of Imperial Decline"…

"Unforced" Policy Errors: Innovation

- **Capital Markets:**
  - **Decimalization of the Nasdaq**
  - **Eliot Spitzer Research Settlement**
  - **Sarbanes-Oxley**

- **Talent:**
  - **65,000 per year cap on H1-B Visas**

- **R&D/STEM**
  - **30-year CAGR on NSF, NASA, DOE Office of Science: 1.0%**
  - **Failure to created adequate numbers of STEM teachers**

- ***Number of U.S. public co.'s 1998: 7,562***
- ***Number of U.S. public co.'s 2023: 4,266***

- ***Unfilled job openings in the U.S.: 10.9 million (4.9 mil in IT svcs. & tech)***

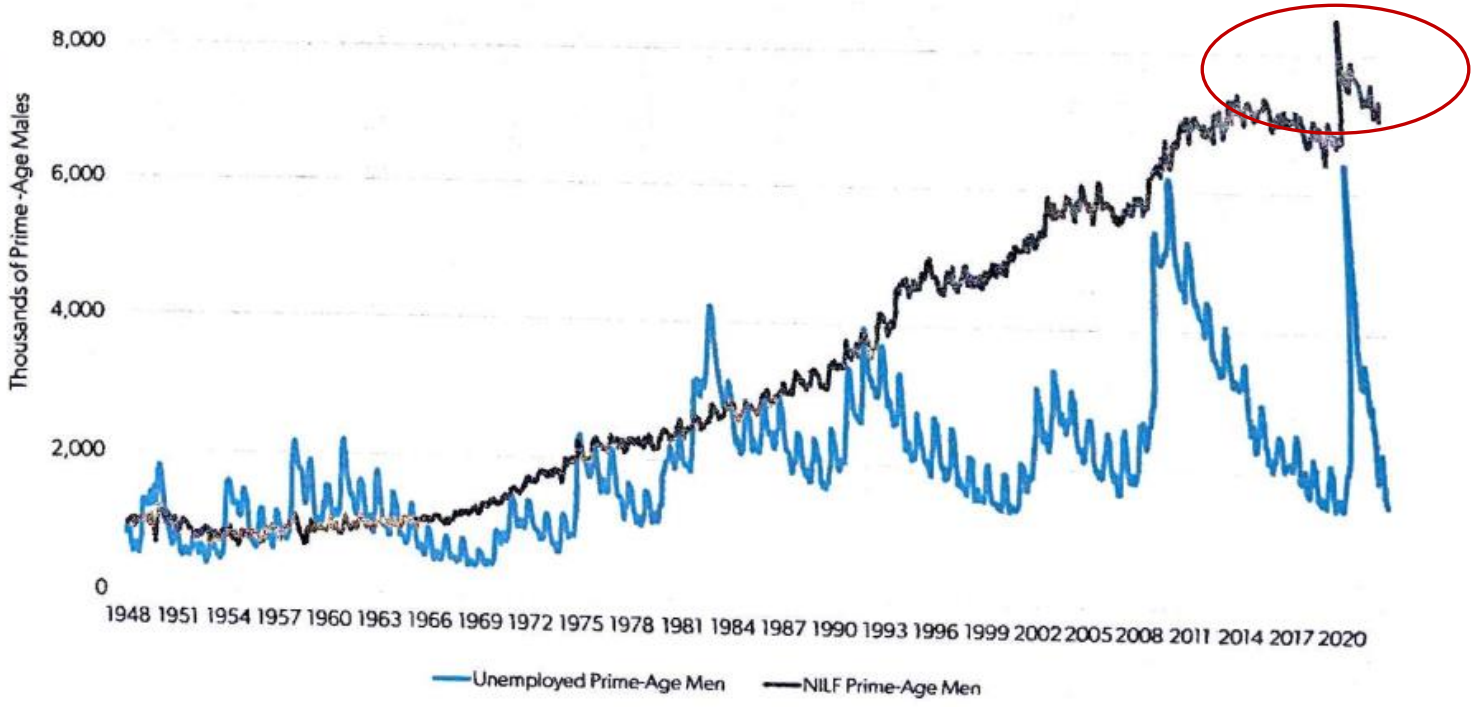
- ***Civilian R&D as a % of GDP: 0.3% (1/3 of 1965 level)***
- ***US Ranking on PAWS test in science and mathematics: 25th out of 38 OECD countries***

Today: A Supply Crisis

Labor:

- 16% of men 25-54 lack paid employment
- This rate exceeds Depression-era (1940)
- Almost 8 million working-age men are not in the labor force
  - 4x the # of unemployed
  - In % terms, 3x 1965

Decade/ Yr	NILFs per 100 Unemployed
1950s	86
1960s	114
1970s	150
1980s	115
1990s	182
2000s	219
2010s	236
2020s	251
(2022)	391



Source: BLS; Eberstadt, Nick, "Men Without Work", 2022

- ***Causes: Opiods, disability, Medicaid/SNAP, prison…***

Income "Equality": Disincentive to Work?

- Underappreciated by striking is the remarkable income ***equality*** between the bottom three quintiles of the U.S. income distribution
- Average income for families in the bottom quintile, the second quintile, and the middle (third) quintile of the income distribution, after taking into account government transfers and taxes, is tightly banded between $50,000 and $60,000 per household.
- In the bottom quintile, approximately 36% are working. In the second quintile 85% are working. And in the third quintile, 92% are working, and paying taxes to support non-workers in the bottom quintile.
- Taking into account larger household sizes in the second and third quintile, the per capita average income, after transfers and taxes, is even more equal between the bottom 3 quintiles of the income distribution.
- The similarity in income between those working and those not working breeds resentment and disappointment.

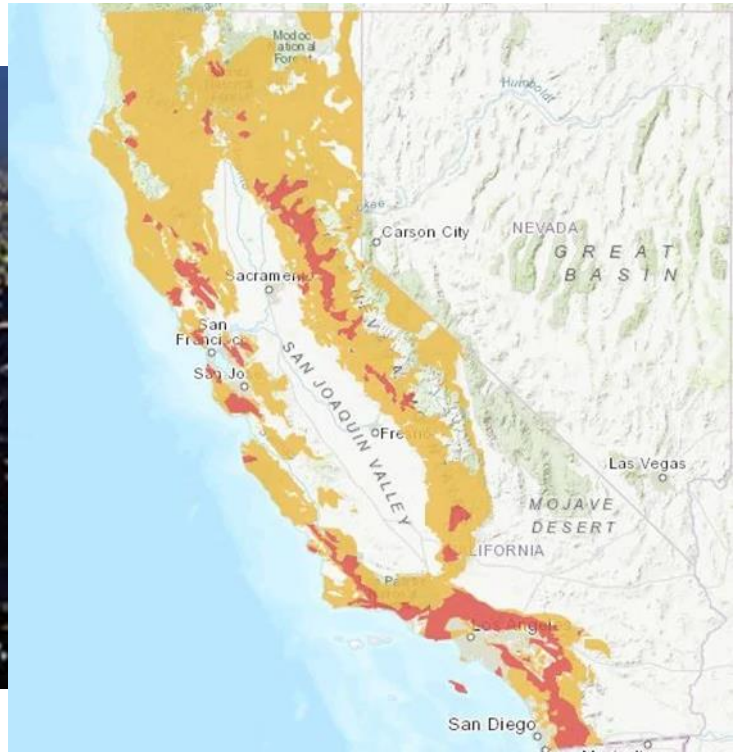
Source: Phil Gramm and John Early, WSJ, 8/29/22

Today: A Supply Crisis

Energy:

- Rolling Blackouts in California
- Companies are publishing "electric outage maps"
- Re-shoring semiconductors?
- Process industries?
- Data centers?





The Need for Political Reform

- Our political discourse has become coarse and hostile
- The loudest but often most shallow voices on the far left and far right are dominating the airwaves, social media, and the political debate
- Incumbent members of the Senate, House, and state legislatures do not fear losing in a general election – they almost uniformly fear losing in a low-turnout primary to a fringe member of their own party
- Yet in terms of self-ID by party, Americans are split 28% Dem, 26% GOP, and 45% independent. This has not changed materially in four decades
- Some have proposed open primaries or ranked choice voting as solutions
- The public expresses majority support for bipartisan compromise

Personal Action

- ***Aligning personal activity and philanthropy with values and priorities***:
  - Supporting the policy research enterprise
    - Hoover Institution at Stanford University – "Ideas Defining a Free Society"
    - RAND Corp. Graduate School -- #1 producer of public policy Ph.D's
    - Resources for the Future – Applying economic instruments to environmental problems
  - Engaging in public policy:
    - Gov. Chris Christie (NJ): pension reform, economic plan
    - Gov. Matt Mead (WY): broadband deployment in rural America
    - Gov. Arnold Schwarzenegger (CA): economic reform, political reform, climate solutions
  - Support for higher and secondary education:
    - Stanford GSB, Harvard Andrew M Browne Endowment, Univ. of WYO, Carroll School, St. Paul's, LHS Scholarships

It Can Be Done: The Clean Air Act

- Signed November 15, 1990 – still law 32 year later
- Key provisions:
  - Reduced "acid rain" from electric utilities
  - Reduced tropospheric ozone – "smog"
  - Regulated emissions of 189 "air toxics"
- Results:
  - Ambient lead down 86%; SO2 down 91%; CO down 73%; Fine particles down 41% (EPA)
- Climate:
  - U.S. GHG emissions in 2017 12% below 2005
- Lessons:
  - Bipartisan (passed Senate 89-11; House 401-25)
  - Took costs into account
  - Bush started with specific, 435-page proposal



➢ ***EPA: Benefits exceeded costs by 30x!!***

Policy Innovation: "Cap and Trade"

- How emissions trading works (SO2 example):
  - Standard set at 1.2 lbs./MBTU vs. a "technology standard" in old CAA
  - Utilities that achieve reductions below 1.2 lbs./MBTU can sell excess emissions to those for whom marginal cost of control is higher
  - Revenues from sale of permits effectively subsidize cost of control
- Result:
  - 10 million ton reduction projected; 21 million ton reduction achieved
  - Cost estimated at time of passage: $1,500/ton by utilities; $750/ton by USG
    - Actual average cost of permits: $125/ton

➢ *Trading key to the political compromise: proceeds from trades mitigated rate hikes*

➢ *Intellectual "godfathers": Resources for the Future, EDF*

An Agenda For America's Future

- A new commitment to R&D, innovation, and our great universities
- Alter the pace of benefit growth and increase investment in the future
- Investment in national security (air, naval, technology) and alliances
- "A North American Energy Renaissance" – U.S., Canada, Mexico
  - Cost/benefit analysis on climate
  - U.S. as a global leader on natural gas – with a methane rule
- Political reform to reflect the will of the American people
- National unity: A year of national service

Thank you!

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