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Removing barriers to innovation

The right policies and personnel can end a lost decade

By John Michaelson

President-elect Donald J. Trump and his incoming administration have an unprecedented opportunity to set the stage for a sustained period of growth, increased productivity, a prosperous middle class and the transformation of the U.S. economy.

Given the Republican election victory and the reaffirmed Republican majorities in both houses of Congress, the time is ripe for a profound shift away from the policies of the past 10 years that resulted in a crash, followed by the one of the slowest recoveries in U.S. history. The United States has suffered nothing less than a lost decade marked by the ultra low interest rate regime of the Federal Reserve that has resulted in anemic growth and secular stagnation. Sustained low interest rates have also caused the largest transfer of wealth from the American middle class, destroying savings, pension fund holdings and insurance returns.

What is more, the government has done everything possible to protect large and inefficient companies and banks and to coddle crony capitalists. It is not surprising that large companies are not investing. They are feeling no pain.

It will be critical for the new administration to act quickly and decisively, trusting its instincts with a willingness to remove barriers to innovation. This will cause disruption and pain. But it must be done quickly and decisively. The alternative is another sustained period of economic dysfunction.

Now is the time for the new administration to be bold and avoid pressure for "safe" establishment personnel choices. It should turn away from those who created the problems and don't understand the solutions. President Obama went with "safe" establishment choices for the key economic positions in his administration.

They created the largest transfer of wealth in history from the middle class to the top 1 percent. Their policies decimated savings, pension fund holdings, annuities and whole-life insurance returns — the primary middle class hopes for a comfortable retirement. They protected and enriched their friends on Wall Street.

They allowed the critical financial pipelines and the regional and community banks that supported small- and middle-sized enterprises to wither. By imposing massive regulatory burdens and costs designed to protect the big banks from competition, they made it almost impossible to restart lending to these enterprises. They protected their friends. They failed the president, they failed most Americans. This must change.

Among the top priorities are these:

Reform the Federal Reserve and Treasury. Like World War I generals at the Somme, almost all economists are wedded to failed dogmas. Sustained and artificial ultra-low interest rates, aka quantitative easing, have not only achieved little in stimulating growth, they have actually retarded growth by protecting large and inefficient enterprises from competition.

The new administration needs to clean out regulations that restrict competition by imposing burdens on smaller companies. It can provide innovators and adopters of new technologies with a free-market environment, leading to increased productivity and growth. This will require shunning entrenched, noncompetitive establishment players to ensure progress is not stymied. Dodd-Frank, for example, preserved the status quo and stifled competition.

There should be a shift from preserving large institutions at the cost of small and emerging institutions. This means restoring community and regional banking.

There is opportunity in the next five years for a massive innovation boom driven by improvements in technology and increases in computing power, storage and bandwidth. We have yet to see large sectors of the economy embrace such innovations because protected enterprises with virtually unlimited access to almost free capital see no need to change and adopt innovation.

Advances in genetic sequencing and big data have digitized treatment of diseases, laying a base for rapid improvements in therapies and medicines. But too often, companies have been unable to capitalize on technological innovation and bring applications to market because of a lack of funding and a plethora of red tape.

There should be a shift from preserving large institutions at the cost of small and emerging institutions. This means restoring community and regional banking, ensuring a robust pipeline of new loans and reducing the concentration in banking.

There is a lot of room for small businesses to grow. Small business starts fell sharply after the 2008 financial crisis and have only recovered slowly since then. The Small Business Administration has said small businesses created close to 2 million of the roughly 3 million private-sector jobs generated in 2014. And at the end of 2014, more than 7 million of the 11 million jobs created during the recovery had been generated by startups and small enterprises.

The new administration should be willing to move the focus from Wall Street to Main Street and have the strength and audacity to foster change without fear of pushback from established special interests. And there should be clear recognition of the failures of past policies.

Finally, choosing the very best people will be critical. Those who failed should not be replaced by others who are also captive to the same misguided theories and establishment consensus.

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