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The 8 Biggest Barriers To Economic Growth

John Maudlin

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Last month I ran across a fascinating study by economist John Cochrane. He is a senior fellow at the Hoover Institution, former University of Chicago professor, and adjunct scholar with the Cato Institute.

Cochrane wrote a [paper on economic growth](#) last year as part of a project to design presidential debate questions where he took a matter-of-fact approach to the growth problem.

What are the barriers to productivity growth, and what can we do to remove them? Not surprisingly, most barriers are the result of counterproductive government policies. I'll highlight here a few from Cochrane's paper.

Barrier #1: Government Interference

The government interferes in just about every segment of the economy. Sometimes it brings benefits like traffic safety and clean air. More often, regulation simply slows growth in order to transfer wealth from one group to another.

It interferes with growth by impeding competition and distorting economic incentives. It distorts the signal that individuals send markets about their preferences and adds a great deal of noise and cost, which distorts economic activity from being its most efficient.

Barrier #2: The Dodd-Frank Financial Regulations

The Dodd-Frank financial regulations had the laudable goal of preventing future bank crises, but in reality, they simply work against other government policies. Washington encourages and subsidizes debt and then tries to prevent the inevitable consequences.

We wouldn't need Dodd-Frank if the government were not rewarding excessive debt. Excessive, unproductive debt of the type we are generating in the US and Europe actually inhibits growth.

Barrier #3: Obamacare

We're all frustrated by Obamacare and health insurance generally. What we need is simple, portable, catastrophic health insurance. Instead of promoting it, the government makes it illegal.

Barrier #4: Energy Subsidies

Here again the government works at cross-purposes with itself. It subsidizes energy so that it costs less, then tries to prevent us from using too much of it. Cochrane says the ethanol mandate helps no one but the large corn-producing companies. Ditto for solar subsidies.

Barrier #5: Taxes

Taxes should raise revenue, but instead we use them to redistribute income and encourage/discourage behavior. A simpler tax code would remove massive economic distortions, and it would be far better to tax consumption instead of income.

Barrier #6: Income-Based Social Programs

Cochrane sees no need to be stingy with helping people in genuine need. Welfare programs are far less costly than the many subsidies we give the middle class and large corporations.

The problem is that perverse incentives trap people and make them permanently dependent. He suggests consolidating all the aid programs and making them time-based, like unemployment benefits, rather than income-based.

Barrier #7: Immigration Terms

We can end illegal immigration overnight, says Cochrane, by making it legal. The question is the terms we apply to legal immigration. We should welcome skilled workers who want to stay in the US and contribute to our economy. He also points out, wisely, that whether someone should be here is a separate question from whether they should be allowed to work here.

Barrier #8: Public Schools

Public schools do not need more money; they need correct incentives. The way to deliver them and ensure better opportunities for all is to adopt vouchers and charter schools. The government doesn't have to directly provide the service in order to help people afford it.

Implementing these reforms is a political challenge, not an economic one. One man's waste is another man's subsidy. People naturally resist when they perceive they are on the losing end of the bargain. Serious change is very hard if everyone insists on keeping whatever benefits they presently have.