

## **A 19-Year Dialogue on The Power of Incentives**

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When I was first asked to write Economic Viewpoint columns in 1985, I expected to do this for a year or two. I did not want to take too much time away from my research agenda. But I discovered that I immensely enjoyed the opportunity to use economic reasoning to discuss important issues of the day in simple and nontechnical language. The years have gone by, and I have been doing this about once a month for 19 years. That is long enough, so this will be my last regular Viewpoint.

**I BEGAN WRITING THESE COLUMNS** soon after the reelection of President Ronald Reagan. Most economists in those days who discussed economic issues in the media concentrated on forecasting movements in gross domestic product and inflation and other macroeconomic questions. These are important, but there was a vacuum in discussions of public policies and events that affected the incentives of individuals, families, companies, and governments. Since I have spent my career teaching and researching how incentives affect behavior, it seemed natural for me to help fill this vacuum.

Friends had told me that the first few columns would be easy, but warned that after a while I would run out of ideas and topics. Actually, the reverse has been true: The first few columns were among the most difficult. It is hard to express complicated economic thinking in simple language that can be understood by the intelligent non-economist. The struggle to do that was made much easier by my wife's help and by her earlier experience in journalism.

Finding topics has usually been easy, because events continue to serve up new economic issues, or old issues in new clothing, that push and pull incentives in different directions. For example, the end of the Cold War and the retreat of communism was not only the defining event of the second half of the 20th century, but it also brought an opportunity to test whether all our preaching and analysis about the importance of incentives really make a large difference. The bumpy but successful transition of Russia, much of Eastern Europe, and especially China from socialist to market economies shows that giving individuals more responsibility does produce big economic gains.

I have been critical of the debilitating effects of onerous regulations in investment, employment, and prices. These criticisms were confirmed by events in India after the reforms started in 1991 by the excellent economist, Manmohan Singh, recently named Prime Minister. By reducing massive controls over private investment, tariffs, and other regulations, India went from a basket case that continually sought and received international aid to a dynamic economy with annual GDP growth rates above 6%. India has to do much more to sustain its rapid economic growth, but what a nice turn of events! France, Germany, Italy, and other Western European nations could end their decade-long stagnation if they would learn the same fundamental lesson, freeing up their labor markets, reducing taxes, and instituting other economic reforms.

At home, the Personal Responsibility & Work Opportunity Reconciliation Act of 1996 provided a chance to check predictions in prior columns about the negative effects of welfare on the incentive to work. The analysis passed with flying colors as welfare rolls melted under the work incentives provided by this law.

Along with many others of my generation, I was a socialist when I started my university studies. But my first few economics courses taught me the power of competition, markets, and incentives, and I quickly became a classical liberal. That means someone who believes in the power of individual responsibility, a market economy, and a crucial but limited role of government. I have not hesitated to express these beliefs in evaluating policies of both Democratic and Republican Administrations. I understand that politics often trumps economics, but it is a mistake to excuse misguided policies because one generally sympathizes with a particular party or person.

I have enjoyed many aspects of writing these columns, but the most rewarding surely has been the interaction with readers through letters, e-mails, and personal contacts. Some readers have indicated that I opened their eyes to the deeper effects of different policies, while others have disagreed, occasionally in strong language. But I always felt there was an ongoing dialogue, and there is nothing more satisfying to a writer.