

# PRINCIPLES AND COMMITMENTS

In the past few decades, technology and entrepreneurship have created exponential economic growth and consumer surplus. But areas such as prisons, transportation, education, healthcare, housing, and the regulatory state are in deep crisis. These sectors are unaffordable, deliver poor products, and in extreme cases ruin the lives of individuals and communities.

Special interest capture of public institutions, decreasing social mobility, and polarized gridlock are some of the cardinal traits of our social order. That's why we are designing bipartisan policy frameworks that harness market forces to rectify institutional failures, expand opportunity, and generate real social progress.

The most productive social forms recruit the situational perspectives of as many people as possible rather than employ the limited vantage point of a centralized command. Systems-level thinkers appreciate that basic principles of bottom-up organization apply at the scale of a household, a corporation, government, and the American economy as a whole. We call these principles of specificity, adaptability, and choice.

1. **Specificity** - Successful systems rely on concrete insight rather than generalized wisdom, what Hayek called “local knowledge” and others have termed “the tacit dimension.” It’s impossible to capture statistical nuances from a high altitude. Only a system which surfaces microscopic details can account for the precise needs of a people. Even the most talented, intelligent leaders possess only a fractional, fragmented view of reality. Market frameworks succeed because they are intellectually humble, and acknowledge that valuable information comes from the ground up rather than from sweeping generalizations.
2. **Adaptability** - The American economy, which triangulates the needs and aspirations of hundreds of millions of people, is nearly as complex as life itself. Economic and political systems should borrow insights from evolutionary processes and use iterative trial-and-error to continuously adapt to contingencies. Rather than relying on a priori management principles or dated techniques, successful institutions adjust to the shifting needs of a consumer base, target population, or constituency.
3. **Choice** – Systems should cultivate open, expansive decision spaces for as many agents as possible, preserving their flexibility to experiment with new approaches rather than limiting creative (productive) deviance. The mom-and-pop café is generally a superior institution to the formulaic call center because it maximizes the owners’ discretion and is fully customizable. Inversely, public and private services providers which maximize choices for those they serve are best able to meet their needs.

It's challenging for an organizational system on the scale of a government to preserve bottom-up decision making structures at scale. The best technique we have devised for coaxing specificity, adaptability, and choice from those closest to the problems at hand is market competition. Open, competitive markets stitch local knowledge and preferences into flexible organizational forms –non-profit and for-profit corporations that unleash the forces of change and growth to solve material challenges, empower individuals, and save society billions of dollars. Market competition naturally rewards creativity, innovation, and entrepreneurial genius, no matter how unexpected their origin. It ensures that the best ideas go viral, that the worst ideas vanish into obscurity, and that business leaders are held accountable for the decisions they make.

We must enact a policy framework within which socially valuable innovations translate into business success. America's best and brightest are inspired individuals with the potential to change the world. We need to make sure that some of the most talented people in the country are given market incentives to deploy their efforts towards oft neglected social missions: fighting cost disease in sclerotic areas of government, helping fellow citizens access the kinds of opportunities that will allow them to lead rich, purposeful lives, and ensuring that no Americans are left behind.



## PRISONS

The United States has the highest incarceration rate of any developed country, housing 2.3 million inmates, or nearly a quarter of the world's prison population. Shockingly, 80% of American criminals re-offend once released from prison. Any adequate solution to America's prison catastrophe must focus on [rehabilitating](#) these troubled individuals, and there is clear early proof that many rehabilitation strategies would lead to better results across the board.

Today, 8% of American prisoners are detained in private prisons.<sup>1</sup> Like their public counterparts, private prisons are paid to “warehouse” prisoners on a per-diem/per-capita basis rather than rewarded for provably helping prisoners regain their footing in society. At best, private prisons are slightly cheaper simulacra of public prisons; at worst, ill-conceived contracts incentivize them to skimp on security and tempt brutal forms of prison violence.

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<sup>1</sup> Geiger, Abigail. “U.S. private prison population has declined in recent years.” *Pew Research Center*, April 11, 2017.

We are excited by the prospect of creating market incentives for private prisons to lower recidivism and help prisoners find employment. A legal framework which unleashes the talent of our brightest entrepreneurs will surface the most powerful ideas and methods for helping ex-convicts lead successful lives. Competitive, metrics-driven innovation will inspire real leadership, weed out bad ideas, and spread practices that ultimately strengthen our most vulnerable communities.



## EDUCATION

America's educational system must be opened up to rich and varied innovation that prepares Americans to grow into responsible adult citizens ready to face the challenges of an increasingly complex, dynamic, entrepreneurial world.

One challenge our higher education system faces is short-term technological unemployment and a skills gap in the American labor force. There are currently 5.5 million unfilled jobs and counting in the US labor market, and new jobs are emerging in such sectors as the science, technology, healthcare, and service industries. We [believe](#) that the federal government should experiment with giving loans to colleges and universities contingent on whether these centers of higher education actually help their students attain not merely "marketable skills" but real jobs in the American economy. We should redeploy the hundreds of billions of dollars of poorly allocated student loans in America so that schools are rewarded – and pay off Federal loans – on the basis of their graduates' salaries and other metrics tied to short and medium-term career success.<sup>2</sup>

Skills gaps caused by technological unemployment are only one problem with our education system – there are dozens of others as well. In general, reform will require incremental testing and iteration before we scale any particular solution to reform the entire system. But we are optimistic that, if properly incentivized, institutions of higher education may be able to adequately prepare students to meet the evolving needs of industry, jumpstarting growth and innovation.

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2 <https://studentloanhero.com/student-loan-debt-statistics/>



## HEALTHCARE

Roughly 1 in 5 dollars spent in America is spent on healthcare, at a cost of over \$3.2 trillion per year. One-fourth of the federal budget is spent on healthcare, and one-third of all healthcare expenditures are pure waste. Consequently, US healthcare spending is twice the OECD average with no improvement to American health outcomes and no end in sight. As Larry and Sergey (of Google fame) recently pointed out, “Health is just so heavily regulated, it’s just a painful business to be in... The regulatory burden in the US is so high that it dissuades a lot of entrepreneurs.”

Among the causes of absurdly expensive healthcare are regulations which restrict physician discretion, strong tort lawyer lobbies that prevent common sense reform and cost savings, and a breakdown of price signaling in many areas of the healthcare apparatus. In drug pricing, for instance, a cartel of pharmacy benefit managers and other middlemen extorts 10s of billions of dollars a year from American healthcare consumers and Medicare/Medicaid taxpayers. Another problem is that hospitals often function as local monopolies and are insulated from market pressures that would typically control wasteful spending. We can fight such special interests and cartels by eliminating regulatory favoritism and creating a level of transparency necessary for markets to identify and curb excessive costs.

[Value-based care](#), which rewards healthcare providers with “bundled-payments” for complete episodes of care and encourages a focus on population health, is superior to a traditional “fee-for-service” model in which doctors are rewarded for performing a higher quantity of tests and procedures. But in order to work, value-based care must harness way more and better data than is currently available. Mandating electronic health records was a good first step, but we believe that legislators should give patients and payers the right to access provider data via an API within a certain timeframe. Technological innovations will help make this data more meaningful for patients, insurers, and providers, but the government has a huge role to play in making it available in the first place – allowing market-driven innovation to function and reduce costs.



## REGULATION

Healthcare is no exception; the American regulatory regime is generally [broken](#). Uncontrollable metastasis of millions of restrictive and ineffective regulations – the result of a system incapable of adaptation - costs the economy an estimated 1.9 trillion dollars a year. The average state code contains over 9 million words, and the Federal Register contains 175,000 pages of regulation.

The causes are systemic. Administrators create rules with limited input from those impacted by their rules and make their metrics for success deliberately opaque to those being regulated so that regulators can push political agendas without fear of recrimination. Meanwhile, special interests – especially large corporations, industry lobbying groups, and other powerful incumbents – are often able to “capture” their regulatory overseers at the expense of small businesses. Regulatory costs average 20% higher for small businesses compared with all firms.

Regulatory solutions must begin with transparency and cost-benefit [measurement](#), enabled by advances in information technology. Good regulation is important; all of us want to keep hucksters, polluters, and other unsavory actors in line. But we need an adaptive regulatory system that quickly and easily scraps bad ideas, and encourages innovation with a bias towards entrepreneurs and small companies.

Policymakers need better data and tools to evaluate the effectiveness of different rules at achieving their intended goals. Whether it be ensuring safe cosmetology practices or facilitating an ADA compliant workplace, policymakers should focus on managing and measuring the impacts of rules. Above all, the process of creating and reviewing new rules should be far more transparent and accessible to citizens and entrepreneurs across every industry.



## HOUSING

The lack of affordable housing in America’s high-growth cities is crippling growth, exacerbating regional inequality in the form of racial, income, and age-based segregation, and destroying equality of opportunity in American society. A [recent study](#) estimated that lowering regulatory constraints in the most productive American cities to the level of the median American city would increase U.S. GDP by 9.5%, generating over \$32 trillion over the course of the next decade. The culprit for America’s under-

supply of housing is “Not In My Back Yard” or “NIMBY” syndrome, as manifested in restrictive land use regulations. While regulatory reform and new construction must be central to any housing strategy, shifting cultural attitudes is a critical element as well.



## TRANSPORTATION

America faces a mounting transportation crisis, and the primary culprit is road congestion. Americans spend 7 billion hours a year sitting in traffic, crippling both our individual health and national economic productivity. Commuting costs keep many Americans locked out from urban hubs, which are centers of innovation and economic opportunity. Infrastructure financing has dried up. The Highway Trust Fund is insolvent, and American roads are falling apart, with an \$836 billion backlog of capital needs.

Our country must massively expand construction of new lane-miles and alternative infrastructure such as high-speed railways, tunnels for Hyperloop and other vehicles, and electric VTOL infrastructure. [Congestion priced lanes](#), or variably priced toll lanes, are one exciting prospect for financing this infrastructure overhaul in a Pareto optimal way. High-speed transportation will alleviate the urban housing deficit and free up billions of hours of time. Saving everyone time with faster commutes – rich or poor – is good for the economy, and the American thing to do.

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Our bias towards market competition reflects our view that there are no final solutions to deep social problems. We are suspicious of ideological reductionism and utopianism in all its forms, and believe that the American political imagination encompasses many ineluctable tensions. Politics is the art of managing the tradeoffs between fundamentally conflicting values, and it is a great virtue of our form of government that dissenting voices are not subject to illiberal persecution. As Isaiah Berlin observed,

The richest development of human potentialities can occur only in societies in which there is a wide spectrum of opinions – the freedom for what J. S. Mill called ‘experiments in living’ – in which there is liberty of thought and of expression, [and] views and opinions clash with each other...Subjection to a single ideology, no matter how reasonable and imaginative, robs men of freedom and vitality.<sup>3</sup>

Some degree of political polarity is the default condition of any free society. But we favor market-driven innovation precisely because it is often capable of circumnavigating battles over incommensurate ideals, and achieving bipartisan acclaim. While certain issues, such as housing or regulatory reform, involve real trade-offs between entrenched, corrupt special interests and the public good, the great promise of competitive markets is that they inspire entrepreneurial spirits to invent technological and structural solutions to problems that leave everyone better off. By channeling our finest minds towards seemingly intractable social problems, we can expand the realm of political possibility and improve the lives of all Americans.

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<sup>3</sup> Berlin, Isaiah. “The Crooked Timber of Humanity: Chapters in the History of Ideas.” *Princeton University Press*, 1959.