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The Free State Foundation's
Fourth Annual Telecom Policy Conference

"The Internet World: Will It Remain Free From Public Utility Regulation?"

Opening Keynote Address:
"A Pro-Growth Agenda for the Digital Age"

Steve Moore
Editorial Board Member and Senior Economics Writer, *Wall Street Journal*

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MODERATOR:

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OPENING KEYNOTE SPEAKER:

STEVE MOORE, Editorial Board Member and Senior Economics Writer, *Wall Street Journal*
A Pro-Growth Agenda for the Digital Age

* This transcript has been edited for purposes of correcting obvious syntax, grammar, and punctuation errors, and eliminating redundancy. None of the meaning was changed in doing so.

P R O C E E D I N G S

MR. MAY: Okay, we're going to go ahead and get started. Some of you that have been here in previous years have heard me remark that whenever we schedule these conferences, even the farmers take note, because it's a good predictor of rain. So at about 5:00 or 5:30 this morning, when the rain came rumbling through with thunder and lightening at my home, I said, "It's conference day today." I knew for sure.

Welcome to the Fourth Annual Free State Foundation Telecom Policy Conference. I'm Randy May, President of the Free State Foundation, and I'm very pleased that you're here with us, of course. Every year, the time between these conferences seems to get shorter, at least for me. I'm sure there is some principle of the theory of relativity that explains why that's so. And when I look at the audience, I see that we have many repeat attenders. Note, I didn't say "repeat offenders," but repeat attenders. So many of you know that from the very beginning, the Annual Conference has been a big success for us. I'm proud of that. But I have to say that this year we've got the best line-up of speakers and programs that we probably have ever had.

In addition to the keynote sessions with a noted *Wall Street Journal* Editorial Board member and economics writer, an FCC commissioner, and a top-ranking White House Internet policy guru, our two panels feature senior industry executives, FCC bureau chiefs, and academic experts. All will share their perspectives on the most important and controversial communications issues of the day. And you will have an opportunity to share yours as well during the Q&A period.

So as we go through each session, please have in mind that if you have questions, you should jot them down. We'll try to get to as many of those as we can.

This year's overall conference theme is *The Internet World: Will It Remain Free From Public Utility Regulation?* And the discussion topic of the two panels is *Convergence, Competition, and Consumer Choice: The Right Regulatory Approaches for the Digital Age*.

On the question posed, "Will the Internet Remain Free From Public Utility Regulation?" the answer is certainly not at all settled, at least not in the way it should be.

My own view of the proper answer is represented by the conference logo on the front of the brochure. Look at your brochure. Do you see the telephone representing the old Ma Bell legacy regulation? And then there's the laptop, representing broadband Internet, which in my view, should not be regulated.

Last week I wrote in a blog that some of you may have seen: "Consider the recently adopted net neutrality mandates, with the common carrier-like nondiscrimination obligation, at their very core. Or consider FCC proposals to extend further already suspect program carriage obligations and to adopt new regulations governing the functionality and features of set-top video navigation devices. Or rules to regulate the rates for data roaming for smartphones. Or requirements imposed in connection with the Comcast/NBC Universal transaction regulating the terms and conditions for access to Comcast/NBCU's proprietary programming by Internet video providers. And so forth and so on."

In my blog, I referred readers, as sort of a pre-conference reading assignment, which hopefully was not taken to heart by anyone, to what I consider the landmark book, *Technologies of Freedom*, by Ithiel de Sola Pool, published in 1983. I almost stumbled on that, but I see Adam Thierer in the audience. I know he's a great fan of that book, and also quotes it often.

But I just want to quote one paragraph from the book that sets the stage for what I hope we'll be discussing today.

Remember this was 1983, just at the beginning of the emergence of the electronic media, more consumer choice, and convergence. De Sola Pool said: "Historically, the various media that are now converging have been differently organized and differently treated under the law. The outcome to be feared is that communications in the future may be unnecessarily regulated under the unfree tradition that has been applied so far to the electronic media. The clash between the print common carrier and broadcast models is likely to be a vehement communications policy issue in the next decades."

That was written in 1983. And for the ensuing decades that has been, and is still today, a central issue, whether the new media will be regulated under the free or the unfree tradition.

So there is plenty of fodder for a lively and informative discussion today, and that's what I anticipate.

Now you also see on your brochure, we have the special conference hashtag for Twitter. For those of you who are Tweeters, please feel free to tweet away about the conference.

With that said, let's get started. We're going to hear first this morning from Steve Moore, who will set the stage by taking a broad look at our nation's economic and fiscal situation; or perhaps he might say "our predicament."

I wouldn't be surprised if, as part of Steve's analysis of the situation in which we find ourselves in as a nation, he touches on the problem of over-regulation, which is certainly not an unknown phenomenon at the FCC.

Now I'm going to do with Steve what we're going to do for all the speakers today. You all have the program brochure. We've got all of the biographical information that you could want, including schools and class years, and so forth.

I'm just going to give you a couple of highlights from Steve's bio. And I'm sure a good many of you are familiar with Steve. He's the Senior Economics Writer and a member of the Editorial Board at the *Wall Street Journal*. He's an acclaimed commentator on CNBC and Fox News Channels, where I watch him and enjoy him often.

Steve, I usually see you on the Kudlow show, where you're duking it out with Bob Reich, the former Labor Secretary. If you haven't seen that, it's worth tuning in from the 7:00 to 8:00 p.m. hour. You can often catch Steve and Bob Reich, who have two competing visions of generally what should be done with the economy. From 1999 to 2004, Steve served as the Founder and President of the Club for Growth. And I'll let you just refer to his bio for the rest of it.

I gave Steve's talk a title and Steve never declined to let me put it on all the promotions that I sent out. So my title for his talk is: *A Pro-Growth Agenda for the Digital Age*.

Please welcome Steve Moore. (Applause.)

MR. MOORE: Good morning, folks. Randy, thank you very much for the nice introduction.

It is the bane of my existence that I have to deal with Robert Reich for 15 minutes once a week. People are always asking me, "Does he really believe the things that he says?" I think he does. But I always say about Bob Reich: "He just doesn't have his tray table in the upright and locked position, when it comes to some of these economic issues."

And thank you for mentioning my work at the *Wall Street Journal*. Obviously, most of you know that Rupert Murdock owns the *Wall Street Journal* now, and so we have a strategic partnership with Fox News, which is kind of fun.

In fact, what was very funny this morning, Randy, was when I was parked over at that Willard Hotel and was walking through the lobby. This little lady just ran up to me. She threw her arms around me. It was kind of cute.

She said, "I know you, don't I?"

I said, "I don't know, ma'am."

And she said, "Haven't I seen you on TV?"

And I said, "Well, I don't know, ma'am. What do you watch?" I was just playing with her a little bit, and she was endearing. She looked up at me, got kind of confused, and said, "Wait a minute, didn't I see you on Wheel of Fortune last week?"

(Laughter.)

MR. MOORE: And I said, "Yes, ma'am, that was me."

Thank you so much for putting on this conference, Randy. I've been a big fan of this conference for the several years that you have held it. I think the Free State Foundation does maybe the best work in the country on these issues of the Internet, telecommunications, and the FCC.

So I just want to applaud you for what you guys do. We rely, at the *Wall Street Journal*, quite extensively on the work that you do on these important issues.

As Randy mentioned, I probably know less about some of these issues than anybody in this room. I'm an economist. I cover *Journal* economy and fiscal policy and regulation.

So I'm on the periphery of covering this issue, but I don't know all the intricacies of the issue.

The biggest hindrance to the economy right now is threefold: One is the enormous national debt that we face, that has just become a cancer cell on our economy.

The second big problem is something that I will talk about in a minute, the coming tax increases that could be very devastating.

The third is overregulation of the economy, under this Administration especially.

And nowhere do you see the kind of deleterious effects of that more than in the area of telecommunications.

I will simply say outright, I believe that the Internet should not just be a tax-free zone. I believe the Internet should be a government-free zone. Left alone and left with the paws of government off its back, you're going to see an incredible flourishing of the telecommunications industry.

When you talk about industries where America can be number one and can continue to lead the world, there is just no question if we're going to retain our position as the world economic superpower, we have to be number one in telecommunications. This is an area where over the last twenty years, we've led the world. And there is no reason we can't continue to do that in the next ten or twenty years.

But with some of these FCC regulations, such net neutrality, it's just a very dangerous situation in terms of property rights, and so on. Let's let this area of the economy flourish with as little government interference as possible.

I really do believe that the number one issue for this country, in terms of our economy, looking over the next ten and twenty and thirty years, is this issue of competitiveness.

And I always make the case when I give talks around the country, that neither party, the Republicans nor the Democrats, takes sufficient interest in this issue of how we're going to retain our superpower status, as the world economic superpower, as we have been in this country for all of our lifetimes. At least since the end of World War II, the United States has been the unrivaled economic superpower. The real question is whether we will continue with that status, given the fact that we finally have a real, honest-to-goodness rival. And that's China.

One of the fun things about working at the *Wall Street Journal* is that we meet all these foreign leaders when they come to New York or come to Washington for editorial board meetings.

I'll never forget about how, a year and a half ago, we had a meeting with the Chinese Economic Minister, who was a big muckety-muck in the Chinese government. I think he's number four in the chain of command in Beijing. He was telling us about how wonderfully the Chinese economy is doing, which is obvious.

One of the great miracles of human history is what's happened in China over the last twenty and thirty years. He's going on and on about all the productive fruits of a country moving from a Communist centrally planned economy to one that's certainly not entirely free-market, by any means, but it's moved dramatically in that direction. And you've seen the fruits of that, where you have, 7, 8, 9, 10, 11 percent rates of growth, as a country whose living standard is doubling every eight years, when you compound those rates of economic growth.

At the end of his little talk to us, this Chinese minister said that by the year 2018 or '19, he believes that China will surpass the United States and they will then be the largest economy in the world.

You all don't know me very well. But if you cut me, I bleed red, white, and blue, so I couldn't take this much longer. I jumped out of my chair, and I said, "Sir, you know, with all due respect, first of all I want to salute you for what you've achieved in China, it's an incredible accomplishment." "But," I said, "not in my lifetime will China surpass the United States. And the reason that's not going to happen, sir, is because our Chinese are so much smarter than your Chinese."

(Laughter.)

MR. MOORE: He didn't like that too much.

But the point I was making is that I do think that we have to start thinking very strategically about how, in every important industry, the United States will retain its supremacy.

And especially, in my opinion, Randy, in the areas like telecommunications.

I give about twenty lectures a year on college campuses. And one of the things I like to try to express to young kids, to 18-, 19-, 20-, 21-year-olds, is how the world has changed over the last ten, twenty, and twenty-five years. They really have no concept of this.

By the way, I have an 18- and a 19-year-old. I don't like them very much, but I have 18- and 19-year-old sons.

(Laughter.)

MR. MOORE: I try to express to them how different things are. And I've noticed lately that kids on college campuses are very dour. They see the rotten economy. They see what's happening with the debt and all these problems with the country. They're just down and dour, and they think everything is going wrong. It's "Woe is me. Why do I have to be alive now during these terrible times?"

And I say, "You kids think things are so different and terrible now." I ask them, "How many of you kids have a laptop computer"? They all raise their hands.

"How many of you kids have a cell phone?" They all raise their hands.

"How many of you kids have access to the Internet?" And obviously they all raise their hands.

"How many of you kids have iPods?" They all raise their hands. Half of the kids are listening to their iPods while I'm giving my lecture. So they have these things, right?

(Laughter.)

MR. MOORE: Then they look at me with these strange expressions on their faces, like, "Well, duh, of course, we have these things." Because these kids today think that those things, like the iPhone and access to the Internet and so on, have been here for 100 years. They have no concept that these are such modern interventions.

Just to give you a sense, Randy, of how this telecommunications area has progressed, one of my favorite movies of all time is *Wall Street*. Remember that movie with Michael Douglas?

There is a very famous scene in that movie, where Michael, the rich Wall Street fat cat and master of the universe, is walking on one of the beaches of Atlantic City. And he's got a cell phone in his hand. Remember that? It's like a brick with an antenna coming out it.

That movie was made in 1987. So I went back and looked to find out how much that contraption costs. In 1987, that cell phone that Michael Douglas, as Gordon Gekko, was holding in his hand cost $4,200.

Now they damn near give the things away for free.

This is why I get so frustrated, Randy, with this idea of net neutrality, of people not having full access to the Internet. I mean, what are they talking about?

This revolution has hit every area of the economy and every segment of our society. All we need to do is keep the government's claws off of it. I feel so strongly about that because this is an area where the United States is dominant.

I don't know how many of you saw, a couple of months ago, the story that came out. It must be true, it was in the *Wall Street Journal*. It noted that Apple has the highest market capitalization of any company in the world. I think they just surpassed Exxon Mobile.

What that's telling us is that the growth area of the U.S. economy is in these information-age industries, like Apple. And so we need to allow this area to flourish.

A couple things just generally on the economy. Then I'd love to take some questions for you. And then you can bring the panel up.

Here's my take on where we are with the economy right now. The economy is better than it's been any time in four years.

Look at what's happening with the employment numbers. And look at what's happening with GDP numbers. One of the great stories is what's happening with corporate profits right now, which are very healthy. The stock market's been on a tear. So I really do believe that a lot of these Republican candidates are wrong when they're downplaying the economy. I think we are in a pretty nice recovery.

Now look, this has been a long time in coming. This has been the weakest expansion, not by a little bit, but by far, that we've ever had since the Great Depression. Remember it's been four years now since the stock market collapsed in September/October of 2008. Normally, the deeper you fall, the more you shoot out of those recessions and have robust growth.

At this stage of the Reagan expansion, we had 7.8 percent economic growth. Right now we've got somewhere in the neighborhood of three percent. Three percent is okay. We should be doing better. But it sure feels a lot better than the negative rates of growth that we had in 2008 and 2009.

My point is that we're finally starting to get out of this terrible recession that we've had. We're still, by the way, 5.1 million jobs short of where we were in 2007. That's pretty amazing when you think about it. That's almost 5 years of negative 5 million job growth. So we obviously have a huge, huge, digging out journey to go through.

But still, right now things look good.

I travel around the country. I've been probably in eight states in the last four weeks. Because I give talks to business groups and investor groups I always ask business men and women, "How's business?"

Unlike the last three years, where people's general response was "lousy," for the first time you're starting to see business men and women say, "You know, business is pretty good right now. You know, we're really picking up."

So that's a very positive thing. I do expect that we're going to see continued growth through this summer. It looks like clear sailing through the summer.

But then we get to the fall of 2012. That's where I think all bets are off, in terms of whether this is a durable recovery. It's not an expansion yet, it's a recovery.

The number one threat to this recovery is that tax time bomb that's going to go off on January 1, 2013. I'm amazed at how few people are paying attention to this. But it is a big, big, big deal. This is still a very fragile economy.

Look, I'm not happy with any of the candidates right now, so I'm not picking sides in this. But it's simply an observable truth that if Barack Obama is reelected, we are going to see this massive tax hike. He's told us what he's going to do: We're going to have big increases in capital gains taxes. We'll see the capital gains tax go from 15 to 24 percent. And we'll see the dividend tax as much as triple from 15 percent to 44 percent.

Just as an aside, was it Apple yesterday that announced they're going to do a dividend payment? It was interesting to me. I think it's in September. Apple said that they're going to do this stock buyback in dividends. Why are they doing the dividend payment? Because of taxes, I think.

It's pretty clear that if the big tax on dividends is coming in 2013, you make your big dividend payment in 2012, so people can pay the lower tax rate. And the people do respond to taxes.

The same thing happened in 2003, when President Bush first signed into law the dividend tax cut. One of the points that we made to President Bush back then was: "Look, if you cut the dividend tax, which is a double tax on corporate profits, you'll get companies to pay dividends again. It's a good way to get money flowing through the economy."

That's exactly what happened in 2004, 2005 and '06. We had record increases in dividend payments by companies. Microsoft made the biggest dividend payment that any U.S. company made in the history of U.S. corporations in 2004, right after the dividend cut.

So this does have an effect on dividend payments. And I think it's not a coincidence that Apple is making this big dividend payment right before the tax is supposed to go up. It could be really damaging for the economy to see that big tax increase go forward.

Two other quick issues I wanted to bring up. And then I want to take a few questions from you.

One is just on the budget situation. I have to talk about this for a minute because, as we speak, Paul Ryan is unveiling his new Republican budget. I had lunch with him yesterday. It's a very pro-growth document. It really deals with things like reducing tax rates. It tackles the big boulders of the budget, which are Medicare and Medicaid. I don't think he does anything about Social Security, but in Medicare and Medicaid he has some real substantial savings. If you're going to cut the budget, you have to deal with those enormous entitlements.

And I don't agree with everything in Paul Ryan's budget. But I will say this: it's a gutsy document, and it's really important that you have Republicans putting out an alternative vision to what President Obama is putting forward.

If you follow the Obama ten-year forecast on deficits, we'll have a trillion-dollar deficit year after year after year, even under his own assumption.

So that is an important document to pay attention to.

It's likely at this point that Mitt Romney is going to be the nominee. I think he's going to adopt the ideas in the Paul Ryan budget. And if he were elected president, I think he would adopt a lot of these in terms of policy in his own presidential budget. So that's an important thing.

I know there are Republicans, Democrats, and Independents in this room. I think we all agree that if we're going to be serious about competitiveness, we can't continue to be able to compete in a global marketplace if we're borrowing $1.5 trillion a year. Everyone understands that. And it's about time we get really serious about getting these debts down.

The last issue I want to just mention, because it's on the top of my mind, is how technology just changes the world. It really doesn't have anything to do with your conference, but it's somewhat related. I see my friend, Adam Thierer out there, with whom I worked at the CATO Institute. When I first came to Washington, my mentor was a guy named Julian Simon.

I don't know if you know who Julian Simon was, but he wrote a book called "The Ultimate Resource". And the idea behind Julian's work was a pretty profound insight, which is the ultimate resource on this earth is the human mind. All wealth and all productivity doesn't come from the things in the ground, it comes from the innovations and the entrepreneurship of Americans.

Obviously, you can see that in the Digital Age and in terms of the industry that you all are so involved in, which is telecommunications. There is no industry that is more involved in the innovation and the wonders of the human mind than that.

But the one industry that I want to just touch on for a minute is the energy area, because I just got back from North Dakota. I don't know how many of you have been to North Dakota recently, but it's very cold there in February. And I was there at the end of February. North Dakota has this incredible oil-and-natural-gas boom going on. It is astounding.

Look at what's going on with the hydraulic fracking process and the ability to go two miles deep into the ground. And it's not just hydraulic fracking. They also have a technology now called horizontal drilling, where they go two miles down into the ground, and then they can go two miles out of one well, they can go two miles in any direction, like a spider web. It has given us access to enormous amounts of energy that we never before had access to. And so every time they drill, they're finding more and more oil and natural gas there.

Again, it's a perfect example of how human ingenuity is what really creates wealth.

Anybody want to take a wild guess at what state in the United States has the lowest unemployment rate today? It's North Dakota by a longshot.

It's just such an incredible story. In North Dakota, things are going so well there that even the strippers in places like Las Vegas are moving to North Dakota, because that's where they can make more money.

(Laughter.)

MR. MOORE: It's just a boom town right now. Going to some of these towns is like what the Old West was like during the Gold Rush days.

In North Dakota they have access to all this oil through the fracking process. And I'm so excited about the fracking process. When people who say they're against hydraulic fracking, it's like saying they're against the cure for cancer.

The technology is really unbelievable. They are able to penetrate through, literally, solid rock that's like an armor, like steel. And they're able to penetrate through that and unleash the oil and gas that's trapped in those rocks. Anyway, the point I'm making is that as this technology continues to improve, North Dakota has more oil than Saudi Arabia has.

And when the President says, "We can't drill our way out of this crisis," he's wrong. We can drill our way out of this crisis. It's not just North Dakota; it's Montana, Colorado, California, and so on.

I'm just using that energy issue as an example of how, as we move into a modern Digital Age, where technology drives everything, what we need most is just to get the government out of the way. Energy and telecommunications are the same with respect to what both of these industries need. I really believe that.

If you just have minimum government involvement, you will see both of these areas flourish. And it gets back to the very point I made at the beginning: How are we going to retain our competitiveness and make America a high-octane economy? And that is through deregulation, lower tax rates, and getting serious about this debt.

Thank you very much, Randy, for inviting me to this conference. I always love it. And I'm happy to take any questions.

Thank you.

(Applause.)

MR. MAY: Steve, thanks very much.

First of all, thanks for those kind words about the Free State Foundation. We appreciate that. Secondly, and this goes to the reason why I wanted you here and appreciate your coming, the digital economy a very important part of the overall economy, and an important contributor to the nation's economic health. The issues that Steve talked about, such as taxes and regulation, apply to the digital economy and its health, as well.

When you mentioned strippers, I thought you were going to talk about strip-mining.

MR. MOORE: That got your attention.

MR. MAY: It did perk me up.

Finally, Steve mentioned Julian Simon. I know there may be some in this room that aren't aware of him. Maybe you'll have a chance to Google Julian Simon. But in his modesty, Steve didn't mention that he is perhaps the first or one of the early winners of an award given in Julian Simon's name. I happened to attend the dinner at which you received that Julian Simon award. It was the first time that I heard Steve speak. So when you mentioned that, Steve, it reminded me of that connection, and why I wanted you to speak here.

Now, Steve, we have time for some questions. We have a mic in the audience, or folks should have one. But just raise your hand, if you have a question, and let me recognize you before you ask it.

MR. MOORE: Some of those people are standing in the back.

MR. MAY: Some of those now, I know, are panelists. They're probably itchy. But all the other ones, would some of you come up? We've got a lot of seats up here. It will make Steve and I feel more comfortable if you come up and just sit down.

(Laughter.)

MR. MAY: So someone make that move, please, before I call names.

Okay, Ken Keane, you ask the first question. Here comes the mic.

MR. KEANE: Thanks. Maybe from the macro to the micro. In your travels, in your lunches and the like, what are you hearing about sequestration and the fix, if anything?

MR. MOORE: Okay. The question was about sequestration. It's funny you should ask that, because I mentioned that I had lunch with Paul Ryan yesterday. He's releasing his budget as we speak. I'm a fan of sequestration. We lived through this in either '86 or '87, under the Gramm-Rudman process. It basically said we're going to cut every agency, every bureau, every office by two or three percent cut across the Board.

It wasn't the end of the world. There was a lot of complaining about it from agencies and from people who get benefits.

One of the things that I like about sequester is that it ratchets down the baseline of spending. So you don't just get $30 or $40 billion of savings in the first year; you get savings every year from now to kingdom-come, because you've permanently ratcheted down the starting point for spending every year.

So the question, of course, is whether that sequester will ever happen. Under the Ryan budget, there's ten years of sequester. So basically the way this works is if the deficit isn't reaching a certain target, you get these sequesters. That's where they get a trillion dollars of savings.

What I'm in favor of is at least doing the sequester in the first year. I'm not so sure we should be doing them every year after that, especially in the area of defense and national security.

We've lived through a gut-wrenching recession. Almost every private business and private household has repaired its balance sheet, has cut its spending, has gotten its debt under control. That's happened everywhere in the private sector. The only institution in the world where you haven't seen cutbacks is in government.

During the periods when American families were cutting back on their budgets, because of that massive stimulus bill, and so on, most government agencies had 30, 40, 50, 60 percent increases in their budgets.

Can they take a three percent cut? Yes, they can. I really believe they can and should.

The question really is, in 2013, whether you're going to see this sequester. All bets are off on that, whether they'll allow the guillotine to fall or not.

In Paul Ryan's budget, he allows the sequester for the domestic agencies, but what he does is he has some cuts in Medicare and some of these other programs, and then uses some of these savings so as not to cut the defense budget.

And remember, it's not just 2013; it's '14, '15, '16, '17, '18, '19, all the way through 2020, if they don't reach these deficit targets.

The reason I like that approach is it may be the only way to get Congress serious about making the other cuts that would be necessary if they understand that, "Look, if we don't make those cuts, the guillotine falls." We'll see what happens with this sequester.

MR. MAY: Okay. The next question? Mr. Tom Tauke.

MR. MOORE: Hi, Tom.

MR. TAUKE: Hello, how are you?

MR. MOORE: Good morning. Great to see you.

MR. TAUKE: I have two questions, really. Firstly, I'd like your insight as to what you think the slow-down in China and the potential slow-down in Europe means for our economy?

And secondly, I'd like to get whatever your political insight is as to why members of Congress, as well as the President, seem to think it's politically wise to go into an election with all of these tax things ready to go off the cliff a few weeks after the election. It just seems to me like it would be a horrible atmosphere. And everybody on the Hill seems to be ready to just accept that they're going to into the election with this tax sore dangling over them.

MR. MOORE: Yeah. Let me answer the second question first. And it's great to see you, Tom. If I were President Obama's advisor, and if he were listening to me for campaign and economic advice, I'd say, "Mr. President, you're nuts if you want to have this tax increase go off in 2013. Not just economically, but politically."

Think about this. If the market perceives that that tax time bomb really is going to detonate on January 1, 2013, what is going to happen? Every time the capital gains tax goes up, what do people do? They start selling their stock, they take their profits before the tax goes up. That's not just human nature, it's what history proves. Do you remember in 1987, when we raised the capital gains tax from 20 to 28 percent? There was a huge sell-off in stocks in '86, you know, before people were locked in at the 28 percent tax rate.

What I would tell the President is "Look, you're going to cause a recession right before the election, because you're going to have a real slow-down in economic activity. No business is going to want to invest going into that tsunami of higher taxes."

You're going to see a sell-off in the stocks, as taxes on capital gains and dividends are expected to go up. So it's not in the President's political interests to have that happen.

If I were advising him, I'd say, "Look, just say we'll just do this in 2014 or '15, not in 2013."

But really, I do believe this could have a very devastating effect on the economy. And it's going to happen before January 1 of 2013, because people's behavior will anticipate those higher taxes.

Your first question was about the deficit.

MR. TAUKE: China.

MR. MOORE: Oh, China, yeah. And Europe. Here are my thoughts, first on Europe.

Tom, the reason that Europe is important is not because Europe is such an integral part of the global economy. Because the truth is, I don't think they really are. The European continent, unfortunately, is an empire in decline. It's been in decline since the end of World War II. Now it's just accelerating.

As I've said many times on Fox News and CNBC, the reason Americans should be paying attention to what's happening in Europe is this is what happens, this is the cliff you go over, if you don't get serious about dealing with your debt crisis and your entitlements. It's like a sign from God.

What Europe has created over the last 50 years is this massive entitlement society with cradle-to-grave dependency programs, with retirement programs that are simply unaffordable with people retiring at the age of 55.

You've got a situation in Europe, where basically two people are working for every person collecting a government check. The pyramid is simply collapsing.

We're just about ten years behind Europe. So I keep telling people, "Pay attention to what's happening."

It's not just Greece, by the way. It's every European country. It's Italy, it's Spain, it's Portugal. They all have these obese welfare structures, and very high tax rates to pay for them. And what's happened over the last 50 years is capital and jobs and businesses have migrated out of Europe, and they've moved to the United States and to Asia.

In the 21st Century, all the action is going to be in North America, and it's going to be in Asia. Europe is going to be a less-and-less important continent.

But China, obviously, is really important, and they are slowing down. The question is whether our economy continues to grow if China slows down.

You raise a great point. If China even slows down to 5 or 6 percent growth from the 11 or 12 percent, that's going to be a major shock to the global economy and to the U.S. economy. It makes it tough for us to grow.

But one thing to always realize is that for all the troubles that we've had in the last five years, the United States is still the hub of the global economy.

There's just no question about it: We're the hub and every other country, even China, is a spoke. But China is clearly the most important spoke of that kind of wheel that revolves around the U.S. economy.

But let me say this. If President Obama would say, "Look, we're not going to do these tax increases, we're not going to do it, we're going to keep 15 percent on capital gains and dividends, we're going to keep the tax rate at whatever it is now, we're not going to do the AMT increase," and take that threat away from the U.S. economy right now, this economy is prepped for awesome expansion. It really is.

$2 trillion is just sitting on the sidelines. It's not being invested in venture capital, it's not being ventured in starting businesses, and it's not even being inserted that much into the stock market.

One of the great mysteries of the U.S. economy right now is you've got the ten-year Treasury bill that has a 1.95 percent interest rate. People are buying ten-year treasury bonds at a 1.95 percent interest rate. And we have 3.5 percent inflation. What does that mean? It means people are buying 10- and 20-year treasury bills at a negative real interest rate. When has that ever happened before in history?

What that means is we're actually paying the government to hold on to our money. And that's because there is a risk aversion that gets to the concept and the focus of your meeting: The reason that there is so much risk aversion is because there is too much regulation and too much taxation of these vital industries.

If you take away that threat, and it just gets re-injected into the economy, then you will see a boom. You would see a boom like we had in this country in the '80s and '90s, which was the greatest period in the prosperity in the history of the world. From 1981, when Ronald Reagan was elected, to the year 2000, the net worth in the United States went from $18 trillion to $60 trillion.

We could do that again. I really believe that, especially because we're just at the cusp of the Digital Age. This is just the first day of a journey that's going to be years and years.

We're going to see a boom. And I really believe that. The capacity of this economy to grow five, six, seven percent is there. You could see a robust stock market for the next 10 or 20 years. But you've got take away that tax time bomb, because it's a killer.

MR. MAY: Maybe President Obama is listening in today to your advice.

But we've got time for one more question. And if anyone wants to play Bob Reich here and ask a tough one, that's okay. We have one more. And this time, though, Steve, if you hear the music, like on Kudlow, you'll know it's time to move on.

MR. MOORE: You got it. I'll keep it short.

MR. MAY: Steve, you get the final question. The mic is coming up here. Identify yourself for the record.

MR. EFFROS: Steve Effros.

MR. MOORE: Hi, Steve.

MR. EFFROS: Yeah. I'm just curious. Around here we talk an awful lot about how much regulation. Not "no regulation" or "all regulation", but "How much regulation?"

And using your own example, Toledo just had earthquakes for the first time in centuries. They were traced directly to the water that was being re-injected back into the ground.

Do you still take the position, "no regulation, keep the government out of everything, just let's let it happen"?

MR. MOORE: Yeah. It's a great point. And by the way, that earthquake story is really a troubling one.

MR. EFFROS: I hope so.

MR. MOORE: I would agree with you. Yeah, certainly for the people. We just don't really know what's going on, but obviously we've got to figure it out. Because if it's this fracking process that's causing earthquakes, that's a big problem.

I completely agree with you. Obviously, hydraulic fracking isn't going to happen if earthquakes result. The American people won't allow it to happen, if it puts our clean water supply in jeopardy. No question about it.

My only point is: We can do both, at least with respect to the drinking water issue, which is a big one. I'm not saying we shouldn't have clean water regulations. Obviously we should. I'm just saying, "Look, we're a smart country. We're technologically capable. We can do this hydraulic fracking."

By the way, when you read a lot of these stories about what's going on with contaminants in the drinking water from oil wells, most of these stories are a result of oil wells that were drilled 50 years ago, not oil wells that were drilled in the last two or three years. And you've had leakage, there's no question about it. That's an intolerable situation.

Yes, sir, I completely agree that this technology can only go forward if we have environmental regulations that make sure that that doesn't happen. I think everybody in this room agrees with it. I was taking issue with people who say, "Oh, we just can't have hydraulic fracking." That's crazy.

The earthquake one is an interesting one. I'm not a geologist, so I don't know what's going on there. But it is troubling that you're having earthquakes in areas that we haven't seen earthquakes in a hundred years. So that's something that we need to pay attention, too.

My point gets back to the idea of human ingenuity. The great thing about the human mind is that we find ways of overcoming these problems. And when it comes to things like drinking water, or even dealing with potential tremors of earthquakes that happen because of fracking, we better find ways to deal with it, or it's not going to happen.

I want to end this, if I could, Randy, on one point you made. You said that the digital economy is an important part of the economy. I think the digital economy *is* the economy today. I really do. I think everything revolves around this digital economy.

Now the way I put it when I talk to students is that if you look at human history, there have been two bursts of economic growth, two times when you saw just massive increases in productivity and wealth.

The first was obviously the beginning stages of the industrial age. If you look at a path of human history and incomes over the last 2000 years, the most amazing thing is for 2000 years, from the time of Christ's birth, through 1700, there was almost no growth in income. People were just poor, desperately poor, for hundreds of years.

Then you had the Industrial Age, which took 150 years.

And the thing that's so exciting about the Digital Age, and why your conference is so important, is the digital revolution that's going on is just like the Industrial Age, except it's happening 10 or 15 times faster. That is what is so exciting. It means that the future that our kids and grandkids are going to see is incredibly boundless.

So thank you for putting on the conference. Thank you for having me. And have a great day. Thank you.

(Applause.)

MR. MAY: Steve, you got us off to a great start. And we've got a lot to talk about. Thank you so much for coming.