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Short-term government built short-term capitalism

Businesses need fewer mandates and more certainty to invest for the future.

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Hillary Clinton recently highlighted a major problem in the U.S. economy: The business community increasingly pursues short-term profits at the expense of the long-term investments that increase employment, wages and innovation. This weakens the economy and leaves the American people worse off.

I applaud Clinton for identifying this issue — I witnessed it firsthand during my tenure as CEO of BB&T Bank. But if she's serious about solving it, she needs to identify the real culprit: the federal government, especially the vast — and growing — regulatory state.

Not only do current federal regulations incentivize short-term decision-making, so does the constant threat of future rules and mandates, which can disrupt long-term investments before they bear fruit.

Clinton has often targeted her criticism at what she calls "quarterly capitalism." Yet by using this phrase, she unwittingly criticizes the federal government's arbitrary mandate that publicly traded companies release detailed financial reports every three months. This has had the unintended — but inevitable — result of focusing investors' and executives' attention on short-term gains.

Think about it: research and development, capital investments and other outlays could be better for a business' long-term success, but they each require money and resources that would diminish short-term profitability.

The end result, as reams of academic evidence show, is lower investment, lower employment and less planning for a company's long-term success. Hence other nations' decisions in recent years to roll back mandatory quarterly reporting.

The flood of federal regulation is an even more powerful incentive for short-termism. Businesses engage in long-term investment only if they believe they can generate a reasonable return. That calculus becomes far less clear when their plans could be suddenly altered by the actions of the federal bureaucracy. This breeds uncertainty, and when uncertainty reigns, short-term thinking becomes much more attractive.

Both Republicans and Democrats contribute to this crisis. The red tape quickly unrolled under George W. Bush, with the passage of nearly 500 "major" regulations with a $100 million-plus economic price tag.

Not to be outdone, President Obama has overseen the issuance of over 600 major rules, with a total economic cost of roughly $743 billion — and dozens more are still in the works. The Competitive Enterprise Institute estimates that federal regulations now cost the economy nearly $1.9 trillion, a staggering sum equivalent to roughly a 10th of America's economic output.

No wonder businesses are forgoing investments in their futures. Entire industries — from energy to finance to manufacturing — have been reshaped by regulation over the past 16 years, sometimes multiple times a year. Why would companies be so foolish as to make long-term decisions in this environment?

The companies that have invested for the long term, tellingly, have often been in the industries least affected by red tape — technology, for instance.

If Clinton is serious about addressing corporate short-termism, then she should support loosening Washington's grip on America's economy. Instead, many, if not most, of her policy proposals would only tighten it further.

Clinton has made it abundantly clear that she will protect Obama's regulatory legacy, and even build on it. A Clinton presidency would actually worsen the very problem she seeks to combat.

Then again, it is ironic for Clinton to talk about short-termism of any kind. Corporate America is far from the only place where this mentality reigns; it is far more advanced in the federal government.

Nowhere is this more obvious than with the continued underfunding of entitlements, all of which are expected to go bankrupt within the next two decades. Yet Clinton supports expanding the entitlement state, hastening its demise and necessitating disastrous tax hikes in the years ahead.

This is the most dangerous short-term thinking of all. America's long-term economic success depends on whether the next president is willing to propose reasonable reforms that would pull the country back from the fiscal brink. If we don't act soon, it will become impossible to avert the coming catastrophe.

As for the short-termism that is rampant in business, Clinton should be praised for highlighting it. But solving this problem requires the opposite of red tape and rules from on high — it requires getting government out of the way.

Then, and only then, will our country's businesses have the certainty they need to make the long-term investments that will benefit the American people and lead to a brighter future.

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