NewBostonPost

Why some believe Trump misses the mark on America's economic ills

Lizzie Short

April 7, 2016

BOSTON – This year's presidential campaign could be called the race that launched a thousand opinions, most of them about the meteoric and perplexing rise of Donald Trump.

Writing in the American Spectator, the Cato Institute's Doug Bandow throws in his 2 cents worth, arguing that excessive regulation has hurt the American economy and angered blue-collar workers, prompting their support of The Donald and his inveighing against foreign trade and immigrant workers.

Trump-eters are right to be upset, Bandow argues, but not with foreign trade and immigrants. Instead, they should direct their anger at over-regulation by government agencies, which Bandow says is the true culprit behind the disappearance of blue-collar jobs and stagnant wages.

Bandow cites two main impacts of excessive regulation on the American economy: Compliance costs and lost growth. Compliance can eat up resources, including time and money. The suppression of business startups and growth can mean foregone opportunities to create jobs and wealth.

As difficult as it is to measure the cost of existing regulations to existing businesses, it is nearly impossible to account for the effects of rules and red tape that prevent entrepreneurs from starting businesses. Bandow points to the work of two Creighton University economists, James Bailey and Diana Thomas, who concluded in a September 2015 paper that a 10 percent rise in what Bandow terms "regulatory intensity" in a given jurisdiction and market segment cuts the number of new businesses by 0.5 percent and the amount of hiring by 0.9 percent.

But the researchers also point out that increased regulation can help larger incumbent firms, by protecting their markets through higher barriers to entry by competitors, which can fuel growth in the protected businesses. However, the greater impediments in turn may prevent the formation of firms with far greater growth potential.

Bandow is also suspicious of the benefits that excess regulation may create: "Is it a benefit if government corrects consumers' 'irrational' preferences — say for traditional but less efficient light bulbs?" Bandow writes, "Does it matter if those paying and benefiting are different groups? Moreover, what of potentially superior alternatives foreclosed?"

Clyde Wayne Crews of the Competitive Enterprise Institute has argued that when they take "priestly" attitudes, regulators tend to interfere with traditional market trajectories and inhibit pricing experimentation. This in turn, Crews argues, may prevent better, consumer-driven, competitive responses to agency-deemed "bad behavior" in markets.

Crews' institute was one of 15 conservative or libertarian organizations to sign a letter to Congress last week asking lawmakers to adopt a "regulatory budget" to curb the explosive growth in red tape under President Barack Obama. The letter cited an estimate from U.S. Rep. Tom Price (R-GA), chairman of the House Budget Committee, who pegged the costs of federal regulation at about $2 trillion annually. He also estimated that the Obama administration has added another $728 billion in annual costs with thickets of new regulations.

Of course, some regulation is needed and provides benefits across the board, as Bandow acknowledges. Much of it is provided by private institutions such as insurers and standards organizations, he says. When it comes to government rule-making, agencies and lawmakers do best when they do least, he argues:

"Government does best setting broad, framework rules, especially for basic objectives like security, safety, and health. How to achieve more practical ends – ensure that pharmaceuticals and medical devices are 'effective' – is far better left up to the marketplace."

Citing the work of economists John W. Dawson and John J. Seater, who estimated U.S. economic growth would have been far greater if there had been no change in federal regulation since 1949, Bandow said that would have meant a gross domestic product of $53.9 trillion at the end of 2011 instead of $15.1 trillion. GDP is the broadest measure of a nation's economic activity.

"Imagine a nearly four-fold increase in per capita income and wealth," Bandow said. Even after discounting the effects of needed rules, he added, "the negative impact on living standards remains obvious."

Citing research blasting "administrative tyranny," lost opportunities for blue-collar workers and regulatory barriers that effectively shift massive amounts of wealth to the top 10 percent of wage earners, Bandow asks why Trump, a New York billionaire, isn't "inveighing against federal, state, and local governments for doing so much to prevent American companies from being the best they can be, out-competing foreign operations and rewarding Americans accordingly?"

"It is important to point out who really is to blame for creating today's economic problems and imposing widespread financial hardship, thereby fueling the populist Trump bandwagon," Bandow concludes.