RAHN: Costs without benefits

The unrestrained growth of government regulation

By Richard W. Rahn

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If a sports league set up a permanent office with a number of lawyers to write new regulations for its particular gam (basketball, for instance), what do you think would happen after a few years? The lawyer-regulators would know th if they stopped writing new regulations, whether needed or not, they would be out of a job. Over time, the regulatio would grow in both number and complexity, and the players would have a more and more difficult time understanding what the rules were and would increasingly, though unintentionally, run afoul of them. The fans also would no longer understand all the rules and probably would begin to lose interest in the game. Finally, the game would die under the weight of all the new regulations.

Professor Susan Dudley of the Regulatory Studies Center at the George Washington University and Melinda Warre of the Weidenbaum Center at Washington University in St. Louis have just published their annual report of the U.S government's "regulatory budget." The bottom line is that the government's regulatory budget is about $52 billion p year and has been growing faster than the federal budget in general and also as a share of U.S. gross domestic product (GDP). If this trend continues, the United States will become one vast regulatory state and, eventually, the economy will become strangled by its own regulations. The direct government costs of regulation are tiny compare to the costs on the private sector, which have been estimated by economists to be, on average, approximately $20 fc each dollar the government spends, or something more than $1 trillion and roughly 15 percent of the U.S. GDP.

What do we get for this enormous cost? The only thing we know for sure is that most regulations reduce our freedo No individual can know the vast number of laws and regulations to which he is subject, and hence, the government (if it chooses) can target anyone and almost certainly be able to find some law or rule that the targeted person has violated. According to Thomas Jefferson, the U.S. Constitution only gave Congress the power to punish criminally "treason, counterfeiting the securities and coin of the United States, piracies and felonies committed on the high sea and offenses against the laws of nations, and no other crimes whatsoever." Yet the federal criminal code contains thousands of pages, making it impossible for individuals to know all of the violations for which they may be sent to jail.

Very few regulations are subjected to a real and independent cost-benefit analysis; hence, there is every reason to believe that a very high percentage of regulations do not meet such a standard, let alone a human-liberty standard. The budget for the Securities and Exchange Commission (SEC) grew tenfold (to more than $1 billion) in the past 2 years, but there is no evidence it has made us any safer from financial fraud. In fact, the opposite seems to be the case. The Madoff Ponzi scheme was the biggest financial fraud ever. Yet when knowledgeable people presented evidence of the Madoff scheme to the SEC, they were just blown off. Now the SEC wants a bigger budget as a reward for its failure, and the agency and members of Congress are demanding more power for the SEC. The Unite States has many laws against financial fraud, so that is not the problem. The problem may be - in addition to SEC incompetence - that the public assumes the SEC is looking out for it and consequently fails to do proper due diligence. In other words, the existence of the SEC may be increasing rather than diminishing risk.

Much regulation sold as being in the consumer's best interest is really designed to benefit one competitor over another, or worse, government enterprise over private enterprise. A good example of a failed attempt at this, fortunately, occurred last week when a federal court struck down as unconstitutional legislation by Sen. Patty Murray, Washington Democrat, designed to prevent a small, woman-owned bus company from competing against Seattle's heavily subsidized King County Metro Transit.

If the growth of the regulatory state is not brought under control, we will lose both our liberty and our prosperity.

There are a number of constructive things that could be done, such as:

c Requiring that all regulations and even regulatory agencies have a sunset date when the regulation and regulatory agency will cease unless Congress takes specific action to renew it.

c Requiring all, not just some, regulations to be subject to real independent cost-benefit analysis and also allowing independent parties to legally challenge the analysis.

c Requiring that every regulation have an attachment showing the particular provision of the Constitution that gives Congress or the regulator the authority to issue the regulation.

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