Taxes and Spending Are Only Part of the Equation: Don't Forget Regulations

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Much hash has been made lately over Grover Norquist's Taxpayer Protection Pledge, from his organization, Americans for Tax Reform. The Pledge forces anyone who signs it to not vote for tax increases, unless there is reduction in taxes elsewhere (for instance, voting to raise excise taxes but cutting income taxes, though don't quote me on that.) It's also been in the news because some Republicans have backed away from the pledge, not wanting to be feel like they're in a straight jacket while engaged in fiscal cliff negotiations.

Jonathan Bydlak, president of the Coalition to Reduce Spending, writes in *National Review* that while Grover's push is admirable, it's not entirely sufficient:

For years, Grover Norquist and Republicans have tried "starving the beast" of the federal government by capping taxes. While they've been highly successful at preventing tax increases, they have been less effective at addressing one problematic aspect of fiscal policy: the ability of the Federal Reserve and Treasury to borrow more and more to finance massive spending, as they have done under the Bush and Obama administrations. It's simple: Borrowing today means a higher tax burden tomorrow when the debt comes due. True fiscal responsibility, then, requires us to curb spending in addition to limiting tax rates.

Imagine if instead of pledging not to raise taxes, all those politicians had pledged not to raise spending. It's unlikely the United States would be facing massive tax increases as part of the so-called fiscal cliff. That's why it's important to do for spending what Norquist has done for taxes: create a means for voters to hold elected officials accountable when they break campaign promises of fiscal responsibility.

[...]

My claim is a simple one: Spending more than you take in is dangerous because that money ultimately has to come from somewhere. When a government operates on an unbalanced budget, the tax burden is passed *not only on to future generations but also onto our own, diminishing our opportunities through indirect taxation, such as higher interest rates and inflation.*

Bydlak makes an excellent point, that the problem is not just taxes, but also spending. In fact, spending is probably the larger problem. Even if the government took, say, 25% of our income in a flat tax, if it only spent roughly 10% of GDP, we would be better off today. But Bydlak misses a third point that really completes this picture: regulation.

When the government spends, what does that money go to? Well, of course a lot of it goes to the military. And to welfare programs. And to the Drug War. And to payroll, and to $5,000 toilets. But much of the more harmful spending, at least in terms of economics, goes to regulation, to agencies that create new rules every day governing how people can start businesses, sell products, and meet consumers' needs in the marketplace.

If you take a look at TenThousandCommandments.com, you'll see that over 3555 new rules and regulations have been passed this year alone. Each one of those regulations is, in effect, a law, since they have the force of law—even though they're not passed by Congress. And they can have many deleterious effects.

Take, for instance, the food truck saga that many in the DC liberty movement have been talking about over the past year. It's a battle where many cities have created rules to basically shut food trucks out of the marketplace, leaving only brick-and-mortar restaurants to serve food. This is not economically helpful: by prohibiting these vendors from creating value, serving customers, and ultimately being a profit-driven business, these cities are contributing to holding down GDP, keeping jobs from forming, and maintaining the status quo, an economic miasma.

Who knows quite what the total number of regulations are, or their real cost in holding back jobs and damaging the economy. But this uncertainty shouldn't hold back conservatives or libertarians—or any American concerned about our nation's trajectory—from criticising it. Unfortunately, when I look at the public discussion over the size of government, it seems only spending and taxes are discussed, while regulation is sadly ignored.

A good reason not to ignore it is Mitchell's Golden Rule. Formulated by Daniel J. Mitchell of the Cato Institute, the Rule is easily summed up thusly:

If the private sector grows faster than the government sector, then government spending as a percentage of GDP will naturally decrease, the economy will fare far better, and problems over debt will gradually fade to nothingness. Granted, we would still prefer a smaller government, but as long as private sector is outrunning government, we'll be doing mostly a-ok.

Imagine, then, a scenario where you have a government tax 25% of everybody's income, spend roughly 20% of GDP…and yet have few regulations. What would it be spending money on? Well, defense, for one, and law enforcement and the judiciary, for another. Public goods—mainly roads—would also receive spending. And there would probably be spending on public education and some form of welfare too. Now, that wouldn't be my ideal state—but it would be a helluva lot better than what we have today.

We should also recognize that, while taxes and spending are indeed terrible, it is regulations that directly impact us (such as fines for hanging laundry in our yard, fines of up to $10,000.) What restricts our freedom more? Taxes? Spending? Or regulations?

So while I completely agree with Grover Norquist that we should seek to keep taxes as low as possible, and I agree with Bydlak that taxes is not everything and we should also be seeking to reduce spending, I would go one step further: we must not only cut taxes and cut spending, but we must also cut the regulations that are choking our economy. Without a vibrant, growing economy, the argument over taxes and spending is moot, because there won't be any place to draw taxes from, nor anything to spend those taxes on.