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GEORGE BUSH'S HIDDEN TAX: THE EXPLOSION IN REGULATION

INTRODUCTION

He has erected a multitude of new offices, and sent hither swarms of officers to harass our people, and eat out their substance.

Thomas Jefferson,
The Declaration of Independence

What Thomas Jefferson wrote of King George III might just as well have been written of the federal government under President George Bush. The reason: America has experienced an enormous growth in regulation over the last three years, due almost entirely to legislation signed by Bush, and to the decisions of officials he has appointed. This burgeoning red tape hinders the economy's recovery and jeopardizes future economic progress. President Bush belatedly recognized the explosion of re-regulation on January 28, when he declared a ninety-day moratorium on new regulations and instructed federal agencies to review the efficiency of old regulations. In light of the findings that various government agencies indeed could streamline regulations, the President extended the moratorium for an additional 120 days.

A slowdown in regulation is desperately needed. Under George Bush:

✘ The total annual length of the *Federal Register*, in which all new regulations are published, has grown from 53,376 pages in 1988, President Ronald Reagan's last year, to 67,716 in 1991—the third highest total ever.

This study is part of series focusing on the problems of government regulation of the economy, and on policies to improve American competitiveness. Earlier studies on these topics have included: Bryan T. Johnson, "Forging Alliances To Bust Into the Japanese Market," *Backgrounder* No. 876, January 31, 1992; Bryan T. Johnson, "Why Bush Failed In Japan," *Executive Memorandum* No. 317, January 13, 1992; Bryan T. Johnson, "Making America More Competitive With Foreign Investment," *Backgrounder* No. 864, November 6, 1991; Bryan T. Johnson, "Increasing Competitiveness Through Strategic Alliances," *Backgrounder* No. 857, September 26, 1991. Future studies will focus on America's trade policy on dumping, the regulatory process, and relate horror stories of regulatory abuse.

- ✘ The number of federal employees devoted to issuing and enforcing regulations has risen from 104,360 in Reagan's last year to a new all-time high of 124,994, surpassing the previous record of 121,706 under President Jimmy Carter.

- ✘ The amount of money that the federal government spends each year administering its regulatory programs has increased by 18 percent under Bush, from $9.558 billion in 1988 to $11.276 billion in 1992, measured in constant 1987 dollars.

As a result, regulation now is costing Americans somewhere between $881 billion and $1.656 trillion annually, or between $8,388 and $17,134 per household. By way of comparison, Americans will pay an estimated $1.053 trillion in federal taxes in 1992, or about $10,897 per household. Thus, it is possible that the total cost of regulation now exceeds the total cost of taxation.

This surge in red tape did not happen in the face of Administration opposition. In fact, the White House is directly responsible for a good deal of it. For one thing, much of the growth in regulation stems from new laws that were supported and signed by the President, including the Clean Air Act Amendments of 1990, the Americans with Disabilities Act of 1990, the Civil Rights Act of 1991, and the Nutrition Labeling and Education Act of 1990. For another, many of Bush's appointees have been far more enthusiastic about creating and enforcing rules than their predecessors in the Reagan Administration.

Example: Just days after George Bush was sworn in as President, the Army Corps of Engineers and the Environmental Protection Agency (EPA) significantly expanded the scope of federal regulation of wetlands. As a result, thousands of landowners were told that they could not use their own land because federal regulators now considered it to be a wetland protected under the Clean Water Act.

Example: While receiving considerably less attention than the EPA, officials in the civil rights and antitrust divisions of the Department of Justice, and antitrust officials at the Federal Trade Commission, have been expanding the scope of their enforcement activities well beyond that of their predecessors in the Reagan Administration.

Example: The Department of Justice under Attorney General Richard Thornburgh, and the Department of Transportation under Secretary Samuel Skinner, seemed to go out of their way to make their regulations under the Americans with Disabilities Act as onerous as possible.

This new regulatory build-up is taking an increasing toll on the economy. It is like a hidden tax. And just like a tax, regulation:

- ✔ **raises the prices paid by consumers;**

- ✔ **lowers wages and increases unemployment;**

- ✔ **hurts the country's international competitiveness;**

- ✔ **increases uncertainty for businesses and reduces investment; and**

- ✔ **impairs innovation.**

In large measure, the growth in regulation and its burden has been due to a failure on the part of the President, Congress, and the regulatory agencies to view regulation properly. In their desire to "do good" in a particular area, they often fail to take sufficient account of the broader consequences of their actions. Even when they consider the costs of regulation, they generally fail to focus on the burdens caused by regulation taken as a whole. In other words, they fail to recognize that the whole is greater than the sum of the parts. To remedy this, government officials must avoid focusing simply on the benefits and costs (let alone on the benefits alone) of each particular regulation viewed in isolation; instead they must weigh the expected benefits of each regulation against its added contribution to the overall burden of all regulation.

THE PURPOSE OF REGULATION

Government regulations ostensibly are intended to protect the public.[1] Proponents of new regulation might claim that they wish, for example, to protect workers from avoidable injuries on the job, or to shield the public from pollution that could endanger their health, or to prevent harm to consumers from defective products. While these goals are admirable, policy makers often fail to ask whether a new regulation will in fact accomplish its goals in the most cost-effective manner. In particular, they may overlook less costly ways to achieve the same result, enabling the public to gain more protection for each dollar spent. They fail to ask whether the costs in lost jobs or slower economic growth that result from regulations are worth the amount of protection that accrues to the public. And they do not fully consider market solutions that will serve the public interest without imposing on the private sector the heavy costs associated with traditional "command-and-control" regulation. When examining regulations, policy makers must take account of their full costs and impact if they are to determine whether the regulations help or harm the public.

The beneficial effects of much regulation are hard to find. Economists Robert Hahn of the American Enterprise Institute and John Hird of the University of Massachusetts at Amherst recently conducted a survey of all existing studies on the benefits and costs of regulation, and found only two major areas in which regulation produces total benefits that probably exceed total costs—environmental regulation and highway safety regulation.[2] Even in these two areas, there is strong evidence to suggest that equal or greater benefits could be obtained at a substantially lower cost to society.

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1 Economists normally distinguish between "economic regulation" and "social regulation." Economic regulation is the regulation of the prices or quantities of the goods or services provided in a particular industry, or of other economic factors such as the number of firms in an industry or the freedom of firms to enter or leave an industry. The term social regulation normally refers to regulation affecting health, safety, or the environment, but generally can be used to describe any regulation that is not economic. Whereas most forms of economic regulation are industry-specific, social regulation usually applies to many different industries.

2 Robert W. Hahn and John A. Hird, "The Costs and Benefits of Regulation: Review and Synthesis," *Yale Journal on*

Uniformly Ineffective. Outside these two areas, regulation has been found to be uniformly ineffective. For example, numerous studies of the regulation of workplace safety by the Occupational Safety and Health Administration have found no significant effect on accident rates, worker injuries, or illnesses.[3] Likewise, a 1973 study of the Food and Drug Admin-istration's drug approval process, undertaken by University of Chicago economist Sam Peltzman, found no reduction in the proportion of unsafe or ineffective drugs reaching consumers.[4] Similarly, numerous studies have found that the Consumer Product Safety Commission has had no significant impact on product safety.[5] The evidence indicates that the ban on cigarette advertisements on radio and television imposed in 1970 reduced competition between brands—especially by eliminating ads containing health information—and thereby slowed the introduction of new brands lower in tar or nicotine.[6] Similarly, there is no evidence that civil rights legislation has increased employment opportunities for minorities or women. With the increase in employment-related litigation and record-keeping costs that has resulted from the legislation, it is quite possible that civil rights laws now actually reduce employment opportunities for all people, including minorities.

REGULATION FROM NIXON TO REAGAN

The great explosion in federal regulation began when President Richard Nixon created a host of new regulatory agencies, including the Environmental Protection Agency (EPA), the Occupational Safety and Health Administration (OSHA), the Consumer Product Safety Commission, and the National Highway Traffic Safety Administration. Nixon also signed a number of major pieces of regulatory legislation, including the 1970 Clean Air Act and the 1973 Endangered Species Act, and imposed specific controls on areas ranging from to noise pollution, to pension programs, to general wages and prices.[7] The brief Presidency of Gerald Ford continued and expanded the red tape of the Nixon years, although Ford did remove most of Nixon's wage and price controls.

Regulation, Vol. 8, No. 1 (Winter 1991), p. 256.

3 W. Kip Viscusi, "The Impact of Occupational Safety and Health Regulation, 1973-83," *Rand Journal of Economics*, Winter 1986, pp. 567-580; Daniel P. McCaffrey, "An Assessment of OSHA's Recent Effects on Injury Rates," *Journal of Human Resources*, Winter 1983, pp. 131-146; W. Kip Viscusi, "The Impact of Occupational Safety and Health Regulation," *Bell Journal of Economics*, 1979, pp. 117-140; Robert S. Smith, "The Impact of OSHA Inspections on Manufacturing Injury Rates," *Journal of Human Resources*, Spring 1979, pp. 145-170; John Mendeloff, *Regulating Safety: An Economic and Political Analysis of Occupational Safety and Health Policy* (Cambridge, Massachusetts: M.I.T. Press, 1979).

4 Sam Peltzman, "An Evaluation of Consumer Protection Legislation: The 1962 Drug Amendments," *Journal of Political Economy*, September 1973, pp. 1049-1091.

5 See, e.g., W. Kip Viscusi, "Consumer Behavior and the Safety Effects of Product Safety Regulation," *Journal of Law and Economics*, Vol. 28, No. 3 (October 1985), pp. 527-553; Paul H. Rubin, R. Dennis Murphy, and Greg Jarrell, "Risky Products, Risky Stocks," *Regulation*, No. 1 (1988), pp. 35-39.

6 John E. Calfee, "The Ghost of Cigarette Advertising Past," *Regulation*, November/December 1986, pp. 35-45; Lynne Schneider, Benjamin Klein, and Kevin Murphy, "Government Regulation of Cigarette Health Information," *Journal of Law and Economics*, December 1981, pp. 572-612.

7 The core of what later became the Clean Water Act—the Federal Water Pollution Control Act Amendments of 1972 —also became law while Nixon was President, but over his veto.

Jimmy Carter's record was a mixed one. Carter tightened environmental regulations, created the Department of Energy, and tried to impose race and sex quotas on businesses through civil rights enforcement. Yet Carter also championed significant deregulation of air travel, railroads, and trucking. Further, he removed restrictions on the rate of interest that banks and other depository institutions could pay to their depositors, and took the first important steps toward the eventual decontrol of oil prices.

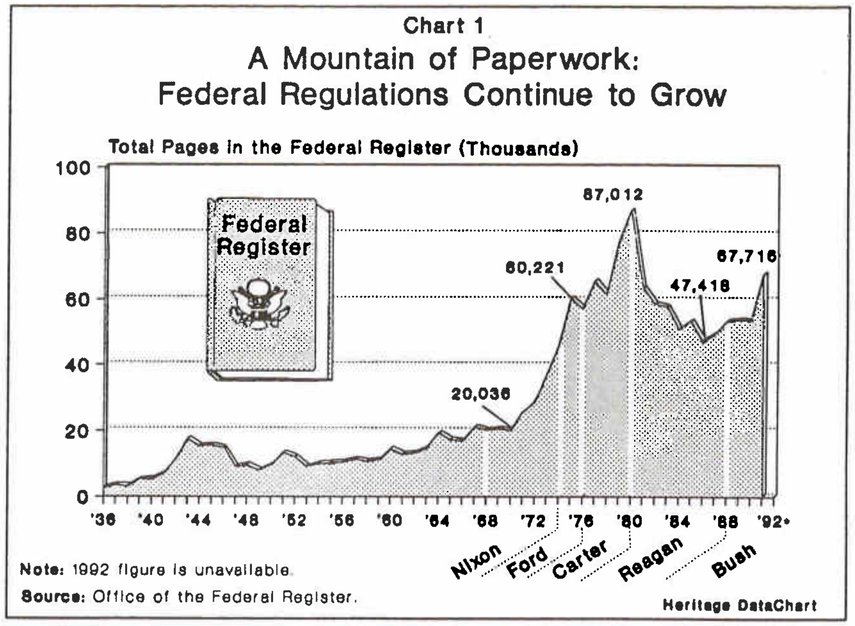


Chart 1
A Mountain of Paperwork: Federal Regulations Continue to Grow

Note: 1992 figure is unavailable.
Source: Office of the Federal Register.

Ronald Reagan proposed relatively little deregulatory legislation. His main legislative strategy was to try to block —usually successfully, through the use or threat of his veto—legislation that would have increased red tape and slowed economic growth. More important, Reagan took steps to reduce the volume of administrative rules issued by government officials. Among the most important actions, Reagan:

- **Issued Executive Order No. 12291, requiring all Executive Branch agencies to estimate the benefits and costs of any new regulations they wished to issue;**

- **Designated the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget (OMB) as a central office for conducting all cost-benefit review of regulations;**[8]

- **Established a Task Force on Regulatory Relief, headed by then Vice President George Bush; and**

- **Appointed to most cabinet departments and independent agencies individuals who favored a reduction in regulation, and significantly reduced the staffing of most regulatory agencies.**

8 OIRA was created under Carter; Reagan expanded its mission.

RE-REGULATION UNDER BUSH

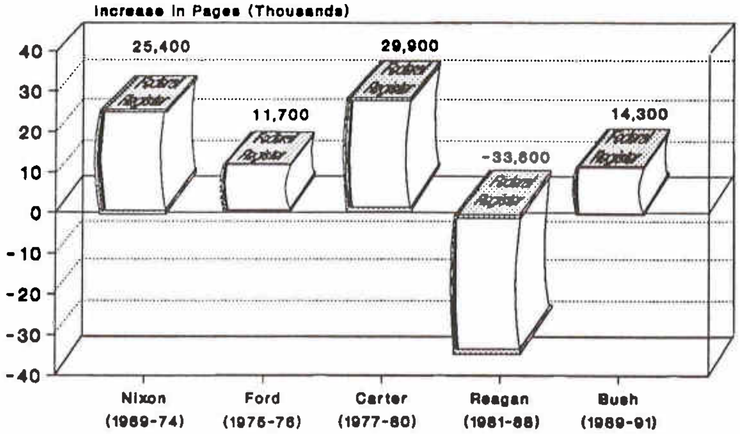
Although George Bush projects himself as an avid foe of regulation, his Presidency has seen an enormous resurgence of regulation.

Example: The total annual length of the *Federal Register*, in which all new regulations are published, declined during the eight-year tenure of Ronald Reagan by 33,636 pages, from an all-time high of 87,012 in Jimmy Carter's last year, 1980, down to 53,376 in 1988.[9] In less than four years, the annual number of pages under the Bush Administration has risen by 14,340 pages. Last year's total of 67,716 pages was the third highest ever, surpassed by only two of Carter's four years.

Chart 2

Pages in the *Federal Register:*

Regulation and Deregulation by President



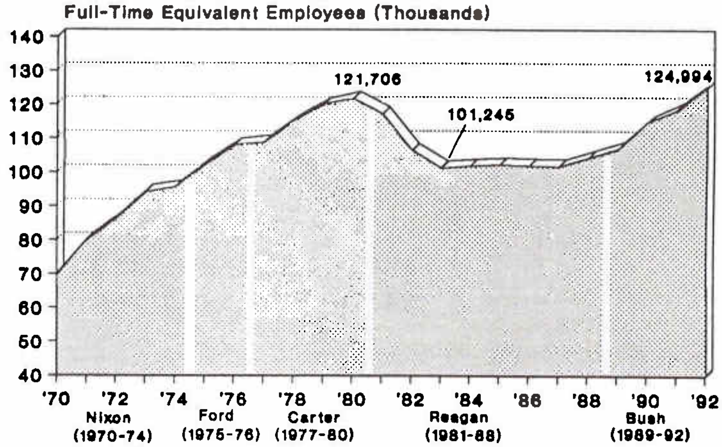
Source: Office of the Federal Register, Washington, D.C.

Heritage DataChart

Example: The staffing level of federal regulatory agencies has increased sharply. The number of federal employees devoted to issuing and enforcing regulations fell by 17,346 under Reagan, from a then record 121,706 in Carter's last year down to 104,360 in 1988. Under Bush, however, 20,634 new bureaucrats have been added, for a new all-time high of 124,994 regulatory employees.

Chart 3

Total Federal Regulatory Employees



Note: Fiscal years. Regulatory data prior to 1970 are unavailable.
Source: Center for the Study of American Business, Washington University, St. Louis.

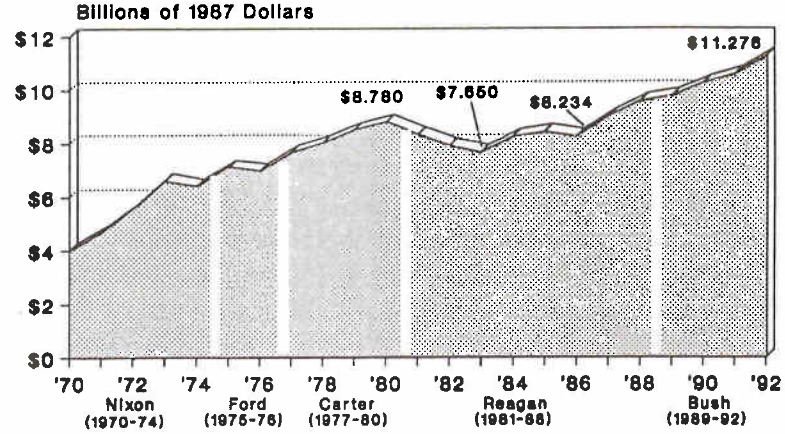
Heritage DataChart

Example: The amount of money that the federal government spends each year administering its regulatory programs also has soared. Measured in constant 1987 dol-

9 All figures reported in this study for the number of pages in the *Federal Register* either were obtained from, or else calculated on the basis of data provided by, the Office of the Federal Register.

lars, federal regulatory spending grew by only $778 million over the entire course of Reagan's two terms in office, rising from $8.780 billion in Carter's last year to $9.558 billion in Reagan's last year. Bush, however, has increased federal regulatory spending more than twice as much as Reagan, and in only half as much time. In constant dollars, regulatory spending has risen by $1.718 billion under Bush, from $9.558 billion to $11.276 billion.[10]

Chart 4
Total Annual Cost of Administering Federal Regulatory Programs



Note: Fiscal years. Regulatory data prior to 1970 are unavailable.
Source: Center for the Study of American Business.
Heritage DataChart

Some of the blame for the growth in regulation under Bush lies with the individuals Bush has appointed. With only a handful of exceptions, these appointees are far more prone to issue regulations and support regulatory legislation that their Reagan predecessors. For example, although EPA Administrator William Reilly maintains he tries not to impose undue regulatory burdens on businesses and households, he and his agency have been at the forefront of the regulatory build-up during the last three years. A case in point: Just days after George Bush had been sworn in as President, the EPA and the Army Corps of Engineers significantly expanded the scope of federal wetlands regulations. Land that had standing water for as little as seven days per year could be subject to federal control as a "wetland," as could land that was dry at the surface but moist within eighteen inches of the surface. In some cases this meant prohibiting farmers from planting crops on their own land and stopping home gardeners from planting flowers. In one case a man was jailed for clearing away old tires and putting fill dirt on his own land as a base for a garage.[11] Likewise, officials in charge of civil rights and antitrust at the Department of Justice, and antitrust officials at the Federal Trade Commission, have been quietly expanding the scope of their enforcement activities well beyond that of their predecessors in the Reagan Administration.[12]

10 All figures reported in this study for federal regulatory staffing and spending either were obtained from, or else calculated on the basis of data provided by, the Center for the Study of American Business, Washington University, St. Louis, Missouri.

11 See William G. Laffer III, "Protecting Ecologically Valuable Wetlands without Destroying Property Rights," Heritage Foundation *Backgrounder* No. 840, July 15, 1991.

12 See, e.g., Charles F. Rule, "Back to the Dark Ages of Antitrust," *The Wall Street Journal*, June 17, 1992, p. A17. Rule was Assistant Attorney General in charge of the Antitrust Division at the Department of Justice from 1986 to 1989.

However, the principal driving force behind the growth in regulation over the last three years has been legislation—legislation which in every major instance has been signed and usually supported by President Bush. Several laws in particular have meant a surge in new regulation.

The 1990 Clean Air Act Amendments

Environmental regulation accounts for the largest share of the recent explosion of regulations. Bush promised during the 1988 campaign to support a new clean air bill, and he was instrumental in securing its passage. Estimates of the cost of the legislation vary, but all are huge. Murray Weidenbaum, former chairman of the Council of Economic Advisors under Reagan and now Director of the Center for the Study of American Business at Washington University in Saint Louis, estimates that the law "will cost an added $25-35 billion a year, over and above the more than $100 billion [already] spent annually on all pollution controls."[13] Economist Paul Portney of Resources for the Future, a Washington, D.C.-based think tank specializing in environmental issues, estimates that the new law will cost between $29 billion and $36 billion a year while providing only about $14 billion a year in benefits.[14] A spokesman for the National Federation of Independent Business, which represents about a half-million small firms, describes the Act as "probably one of the most complex pieces of regulation... ever passed" and has predicted that the legislation "is going to be a nightmare for small-business people."[15]

The 1990 Americans with Disabilities Act (ADA)

Although described as a "civil rights" bill by its supporters, including President Bush, the ADA does much more than simply prohibit discrimination against the disabled. It also requires owners of private businesses, apartment buildings, restaurants, and stores to make—at their own expense—various physical modifications to their premises, such as widening doorways and installing wheelchair ramps, in order to accommodate the disabilities of current and potential employees, tenants, and customers. Likewise, hotels and auto rental companies must go to the extra expense of including wheelchair lifts on all their new pick-up vans. And similarly, public transit systems are required to install wheelchair lifts on all new buses.

While discrimination against the disabled is contemptible, the ADA has little to do with the prevention of discrimination. As the President's Council of Economic Advisors has acknowledged, the ADA actually is a mandated benefit program.[16] Rather than providing these benefits openly by spending tax dollars, the government taxes Americans implicitly by commanding private parties to spend their own money.

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13 Murray Weidenbaum, *The New Wave of Business Regulation*, Contemporary Issues Series No. 40 (St. Louis, Missouri: Center for the Study of American Business, December 1990), pp. 3-4.

14 Paul R. Portney, "Economics and the Clean Air Act," *Journal of Economic Perspectives*, Vol. 4, No. 4 (Fall 1990), pp. 173-181.

15 Quoted in Jonathan Rauch, "The Regulatory President," *National Journal*, November 30, 1991, p. 2905.

16 *Economic Report of the President* (Washington, D.C.: U.S. Government Printing Office, February 1992), pp. 272-273.

As with many government regulations, it is questionable whether the benefits that accrue to the disabled from the ADA will be worth the cost. In the case of many enterprises or places of employment in many parts of the country, there might be few or no disabled customers or workers currently facing significant obstacles. In these cases, forcing each business to spend thousands or even hundreds of thousands of dollars to comply with the letter of the law makes little economic sense, and in some cases may endanger the survival of the business [17] Moreover, Bush Administration officials have made the ADA even more costly than it had to be. In many instances, the implementing regulations require particular methods of compliance even though other methods might be far less expensive yet of greater benefit to the disabled.

Example: Airlines will be required to modify all aisle seats on one side or another of their planes so that people in wheelchairs will have an easier time getting in and out of the seats — even though, on average, only one passenger out of every 25 flights uses a wheelchair. Since the required modifications are expected to cost the airlines somewhere in the neighborhood of $40 million, it would have been less expensive for the airlines if the government simply had required them to let passengers in wheelchairs fly free-of-charge in the first class section, whose seats already can accommodate a person with a wheelchair.

Example: The Act requires all new buses purchased by public transit systems to be equipped with wheelchair lifts. Thus will raise the price of a new bus by about $15,000, and will raise the cost of operating and maintaining each bus in a transit system's fleet by about $5,000 per year. Since the vast majority of riders do not use wheelchairs, it probably would be cheaper for public transit systems to serve disabled passengers with a special fleet of mini-vans equipped with the necessary lifts, which could then give the disabled passengers door-to-door service.[18]

While difficult to calculate, the cost of the ADA may even approach that of the 1990 Clean Air Act. Whether or not the ADA ends up surpassing the Clean Air Act in cost will depend entirely on how it is enforced, and the statute gives the regulators enormous leeway.[19] According to Chicago-based economic consultant Robert Genetski, the required physical modifications of office buildings and hospitals alone may cost some $65 billion. And that figure does not take into account other huge costs, such as the costs of equipping trains, buses, rental cars, restaurants, hotels, or other public facilities.[20] In addition to the direct cost of all these modifications, the Act is certain to foster an enormous amount of costly litigation.

The 1991 Civil Rights Act

Ostensibly an attempt merely to restore civil rights law to where it stood before a series of Supreme Court decisions in 1988, this legislation radically changed federal employment discrimination law. It made it easier for employees to sue employers, harder

17 See Robert P. O'Quinn, "The Americans with Disabilities Act: Time for Amendments," Cato Institute *Policy Analysis* No. 158, August 9, 1991.

18 See Nancy Traver, "Opening Doors for the Disabled," *Time*, June 4, 1990, p. 54.

19 See O'Quinn, *op. cit.*, for a good discussion—with many specific examples—of how open-ended the ADA is.

20 Robert Genetski, "The True Cost of Government," *The Wall Street Journal*, February 19, 1992, p. A18.

for employers to defend themselves successfully—even when they are innocent of any actual discrimination—and more expensive for employers when they lose cases. The new law allows the proportion of workers of various races in an employer's work force to be used as *prima facie* evidence of discrimination, and the employer must prove that he is innocent rather than the plaintiffs proving that he is guilty.[21]

The additional costs due to litigation and fines will act like a tax on employment. With each new job an employer creates, his record-keeping burdens and chances of being sued will increase.[22] Even if an employer tries to avoid litigation by using quotas for minorities and women, he can never completely eliminate the risk of being sued over the racial composition of his work force. Moreover, an employer who uses quotas risks being sued for deliberate discrimination by those whom the quota excludes. And even if the employer is lucky enough not to be sued, his work force will be less productive because he was forced to hire by race and sex instead of merit. Thus, no matter which way an employer turns, the cost of creating jobs and employing people will have risen. The end result of the new "civil rights" law is unambiguous: It will cost the economy jobs, lower wages, and make American firms less competitive.

Other Regulatory Burdens

Other legislative initiatives signed by Bush include the 1989 increase in the federal minimum wage, the Nutrition Labeling and Education Act of 1990, the Pollution Prevention Act of 1990, and increased authority for the Securities Exchange Commission (SEC). When all of Bush's regulatory initiatives are added together, and combined with the increased staffing and budgets at the various federal regulatory agencies and the new, more vigorous and far-reaching enforcement policies that have been adopted by so many of Bush's key appointees, it becomes clear that Bush is responsible for an enormous increase in federal regulation. Indeed, according to a *National Journal* article entitled "The Regulatory President," American business under George Bush has experienced "the most imposing over-all extension of regulatory authority since Nixon."[23]

TOO LITTLE, TOO LATE

There have been several bright spots in the battle against regulation during Bush's term. Shortly after he was inaugurated, for example, Bush created the Council on Competitiveness, headed by Vice President Dan Quayle. The Council's task is to review

21 See William G. Laffer III, "Why Kennedy-Hawkins Will Mean Quotas," Heritage Foundation *Issue Bulletin* No. 159, July 2, 1990; William G. Laffer III, "Why the So-Called 'Civil Rights' Bill Would Still Mean Quotas," Heritage Foundation *Executive Memorandum* No. 302, June 3, 1991; William G. Laffer III, "The Danforth 'Compromise': Another Quota Civil Rights Bill," Heritage Foundation *Backgrounder Update* No. 168, October 7, 1991.

22 In order to be able to defend themselves in the event that they are sued, most employers now keep detailed records on the race and sex of all job applicants. Such records became even more important for an employer to have after Congress enacted the Civil Rights Act of 1990, yet employers would not have to keep them at all were it not for the civil rights laws.

23 Rauch, *op. cit.*, p. 2905.

major new regulations with a view toward reducing the burden of regulation where possible, and to act as a referee when different Executive Branch agencies disagree.

The Council's staff, however, is quite small. Thus it is able to review only a handful of the annual flood of regulations that the Executive Branch issues. Last year, for example, the Council was actively involved in drafting only some fifty to sixty regulations, whereas the total number of regulations issued by agencies within the Executive Branch was on the order of 2,000 to 3,000.[24] Moreover, even when the Council does review an issue, it often must deal with agency personnel who resent having their power to manage the economy questioned or curtailed. Lack of cooperation and sometimes outright resistance on the part of agencies make the Council's task even more difficult and limit its effectiveness.

Bad Advice. Another source of dashed expectations is OMB's Office of Information and Regulatory Affairs (OIRA), the agency responsible for ensuring that new regulations do not cost more than the benefits they provide. Despite the urging of his most loyal advisors, including Vice President Quayle, White House Counsel C. Boyden Gray, and Chairman of the Council of Economic Advisors Michael Boskin, President Bush has failed to give OIRA the support it needs to assure that regulations impose the least burden on the economy. Instead, Bush listened to OMB Director Richard Darman, the same advisor who persuaded the President to break his solemn "no new taxes" promise to the American people, and has refused to appoint a permanent head of OIRA. Because Bush has not given OIRA the support it needs, OIRA has been preoccupied with defending itself against congressional attacks instead of taking the offensive against onerous regulation.[25]

Some Constructive Reforms. Recognizing the burden that regulation places on the economy, George Bush announced this January 28 a ninety-day moratorium on most new regulations that could hamper economic growth. As part of the moratorium, regulatory agencies were instructed to evaluate their existing regulations and to devise initiatives that would streamline regulation and create jobs and economic growth. A few agencies announced constructive reforms during that period. The Food and Drug Administration, for example, proposed to expedite somewhat its procedures for approving new drugs, and the Securities and Exchange Commission has taken steps to make it easier for smaller businesses to raise capital by selling stock. But as the magnitude of the regulatory crisis became apparent, the original ninety-day moratorium was extended an additional 120 days, through the end of August.

There is only so much that a moratorium of this sort—focused mainly on new regulations—can accomplish. While less new red tape is, of course, a relief for business, the regulations put into place during the last three years continue to burden the economy. Unfortunately, since most of these new regulations have been mandated by legis-

24 Rauch, *op. cit.*, p. 2902. In addition, many regulations are issued each year by independent agencies which are not part of the Executive Branch and hence are not directly answerable to the President or the Council on Competitiveness.

25 William G. Laffer III, "Muzzling OIRA: An Attempt to Thwart Bush's War on Regulations," Heritage Foundation *Executive Memorandum* No. 304, July 15, 1991.

lation, which the President signed, they cannot now be repealed except with the unlikely cooperation of Congress.

THE ECONOMIC CONSEQUENCES OF GROWING REGULATION

Although the amount of money that the federal government spends each year to administer its regulatory programs—nearly $13.6 billion for 1992—is one of the costs of regulation, it is trivial in comparison with the costs imposed on businesses, private citizens, and state and local governments. For example, a ban on a particular product may cost very little to enforce, and may even entail very little in the way of direct compliance costs for the private sector, such as paperwork requirements or litigation. Yet the full economic cost of the ban might be very heavy in terms of higher prices and reduced choices for consumers.

In order to gauge the true cost of regulation, as well as any increases or decreases in that cost over time, policy makers must look at the full range of effects each regulation has, not just at the direct enforcement and compliance costs. No regulation can be evaluated properly in isolation. Like two harmless chemicals that when mixed create a dangerous explosive, two moderately harmful regulations can result in serious economic damage. The existence of other regulations can make any new regulation more costly than it otherwise would have been. Likewise, adoption of additional regulations can make previously existing regulations more costly than they were before. Thus, the true cost to be considered and weighed against any potential benefits is not the cost that a new regulation would impose in isolation, but the addition that it would make to the burden caused by all regulations taken together.

When regulations are viewed as a whole rather than in isolation, they are seen to act as a hidden tax. This tax takes the form of such things as compliance expenditures, time lost due to paperwork requirements, delays in the processing and issuance of permits required by government, and attorney fees incurred in regulation-related litigation.

Just like any other tax, moreover, regulation imposes broad economic costs on Americans. Among the most important economic consequences:

✘ **Regulation raises prices paid by consumers and thereby lowers living standards.**

Regulations impose substantial compliance costs which must be borne by someone. These costs are borne in part by businesses' employees and stockholders. To some extent, however, businesses pass these costs on to their customers in the form of higher prices. Regulatory costs can account for a substantial portion of the total price consumers pay for a product or service—for example, regulation adds up to one-third of the price of a single-engine airplane and over 95 percent of the price of vaccines for children.[26]

26 Peter W. Huber, *Liability: The Legal Revolution and Its Consequences* (New York: Basic Books, 1988), p. 3.

✘ Regulation lowers wages and increases unemployment.

Some regulations have a direct and immediate impact on wages and employment. The minimum wage law, federal labor laws, and federal civil rights laws, for example, all tend to increase the cost of employing workers and thereby decrease the levels of wages or employment, and sometimes both. Other regulations affect wages and employment indirectly, but just as significantly. Banking and environmental regulations, for example, both reduce the overall level of economic activity. Each has contributed to the current recession and helped to cause the private sector's loss of some 1.5 million jobs since January 1990.[27]

In some instances, job losses can be attributed directly to some regulation. Example: Many studies have proven that the federal minimum wage law increases unemployment rates significantly, especially among minorities and teenagers who do not yet have the skills to command a wage higher than the legal minimum.[28] Another example: Efforts to protect the spotted owl under the Endangered Species Act have cost thousands of jobs in the logging industry and many additional jobs in communities where logging is the principal industry.

In most instances, however, it will not be apparent that regulation is responsible. This is because regulation of one part of the economy can affect all other parts as well. For example, a recent study in the prestigious *Journal of Political Economy* by economists Michael Hazilla of American University and Raymond Kopp of Resources for the Future found that environmental regulations reduce output and productivity in the finance, insurance, and real estate industries even though these industries produce no pollution themselves and require no direct investment in pollution abatement equipment. Hazilla and Kopp found that all sectors of the economy are affected by environmental regulations. These regulations cause the costs of such inputs to the production process as labor, raw materials, and electricity to rise, and cause savings, investment and capital formation to fall.[29]

✘ Regulation increases uncertainty for business and reduces investment.

Regulations reduce the rate of return on investments made in the United States and encourage firms to move overseas. Moreover, the threat of future regulation adds to the economic uncertainty that businesses must face, and hence discourages long-term investment. By changing or reinterpreting the fine print of regulations, for example, government bureaucrats, the courts, or Congress itself can destroy the value of existing

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27 David Littmann, "The Cost of Regulation, Counted in Jobs," *The Wall Street Journal*, April 21, 1992, p. A16.

28 See, for example, Peter Linneman, "The Economic Impacts of Minimum Wage Laws: A New Look at an Old Question," *Journal of Political Economy*, Vol. 90, No. 3 (June 1982), pp. 443-469; Daniel S. Hamermesh, "Minimum Wages and the Demand for Labor," *Economic Inquiry*, Vol. 20 (July 1982), pp. 365-380; James F. Ragan, Jr., "Minimum Wage Legislation: Goals and Realities," *Nebraska Journal of Economics and Business*, Vol. 17 (Autumn 1978), pp. 21-28; Robert T. Falconer, "The Minimum Wage: A Perspective," *Federal Reserve Bank of New York Quarterly Review*, Autumn 1978, pp. 3-6.

29 Michael Hazilla and Raymond J. Kopp, "Social Costs of Environmental Quality Regulations: A General Equilibrium Analysis," *Journal of Political Economy*, Vol. 98, No. 4 (1990), pp. 853-873.

investments. Rather than risk making large investments that regulators might make worthless in the future, therefore, businesses have an incentive to shy away from large, long-term investments, and to seek instead shorter-term profits.

The steel industry, for example, is especially sensitive to uncertainty because it requires substantial investments in physical assets that are expected to last for fifty years or longer. But since environmental and workplace safety regulations can have a decisive impact on a steel plant's profitability, it is not surprising that investment in modern equipment by American steel producers faltered in the 1970s relative to that undertaken by their foreign competitors.[30]

An additional hidden cost associated with this uncertainty is the "political investment" many U.S. industries make in trying to influence the certainty, scale, and share of regulation and other government activity. Estimates of the size of this political investment vary considerably, with most ranging between 3 percent and 12 percent of Gross Domestic Product (GDP), or around $170 billion to $680 billion per year.[31] Whatever the true figure is, only part of it is due to regulation, and it is impossible to tell how much; the rest consists of efforts to obtain special favors in the tax code or a share of government spending. However, all of this political investment represents pure waste—nothing of value is created by it.

✘ Regulation impairs innovation.

Regulation discourages investment in the development of new technologies, manufacturing processes, and product designs. While this is true to some extent of all regulations and all kinds of innovation, certain particular regulations are especially destructive of particular kinds of innovation. For example, the 1962 amendments to the federal Food, Drug and Cosmetic Act significantly complicated the FDA drug approval process. According to several studies, this doubled the cost of developing drugs in the United States.[32] The amendments reduced the number of new drugs approved each year by nearly two-thirds, from an average of 46 new drugs per year before the amendments to an average of only sixteen new drugs per year after the amendments.[33] Judicial regulation through tort law also has hampered innovation and competitiveness in a

30 See, for example, Arthur B. Laffer and Marc A. Miles, *International Economics in an Integrated World* (Glenview, Illinois: Scott, Foresman and Company, 1982), pp. 126-127.

31 Jonathan Rauch, "The Parasite Economy," *National Journal*, April 25, 1992, pp. 983-984.

32 See, e.g., Martin Neil Baily, "Research and Development Cost and Returns: The U.S. Pharmaceutical Industry," *Journal of Political Economy* (January/February 1972), pp. 70-85; Henry G. Grabowski, *Drug Regulation and Innovation* (Washington, D.C.: American Enterprise Institute, 1976); William Wardell, "More Regulation or Better Therapies?" *Regulation* (September/October 1979), pp. 25-33.

33 Steve H. Hanke and Stephen J.K. Walters, "Social Regulation: A Report Card," *Journal of Regulation and Social Costs*, Vol. 1, No. 1 (September 1990), p. 17. Although one might suppose that the 1962 amendments merely prevented the introduction of unsafe or ineffective drugs that previously were slipping past the FDA, the evidence does not support this view. University of Chicago economist Sam Peltzman has found the proportion of ineffective drugs to be the same after the amendments as before. Peltzman, *op. cit.* Under the auspices of the Council on Competitiveness, the Bush Administration recently proposed several measures that would streamline the FDA drug approval process. See Paul H. Rubin, "Regulatory Relief or Power Grab: Should Congress Expand FDA's Enforcement Authority?" Heritage Foundation *Backgrounder* No. 900, June 11, 1992.

variety of industries, including the pharmaceutical industry and the emerging biotechnology industry.[34]

✗ Regulation imposes especially heavy burdens on small and medium-sized businesses.

Large firms generally can absorb the cost of complying with regulatory programs more easily than smaller firms. Small and medium-sized firms find it more difficult to afford the high overhead costs of processing paperwork, paying attorney and accountant fees, and committing staff time to negotiating the federal regulatory maze. Indeed, some well-established large corporations sometimes support regulation because, although a new rule may raise costs for all businesses, small competitors will be harder hit or even put out of business.[35] Since smaller firms tend to be more innovative and create more new jobs than large firms, the regulation-induced bias in favor of large firms over small firms has the effect of reducing the rate of innovation and new employment.

✗ Regulation increases federal and state budget deficits.

By reducing overall economic growth, regulation shrinks the tax base and reduces the amount collected by every specific tax. Although the amounts involved can be estimated only roughly, as explained below, the federal and state governments would raise more in taxes each year if the burden imposed on the economy by regulation were lower and the economy expanding faster.

HOW REGULATION CAN REDUCE HEALTH AND SAFETY

Although much if not most social regulation is designed to promote health and safety, many regulations actually do just the opposite. This is by far the most important non-economic cost of regulation.

✗ Regulation can reduce health and safety and increase mortality in a variety of ways:

Example: Federal drug-approval laws and state tort laws reduce the availability and increase the prices of life-saving drugs and medical treatments.[36]

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34 See, e.g., Peter W. Huber, "Biotechnology and the Regulation Hydra," *Technology Review*, Vol. 90, No. 8 (November/December 1987), pp. 57-65.

35 See Ann P. Bartel and Lacy Glenn Thomas, "Direct and Indirect Effects of Regulation: A New Look at OSHA's Impact," *Journal of Law and Economics*, Vol. 28, No. 1 (April 1985), pp. 1-25; Ann P. Bartel and Lacy Glenn Thomas, "Predation Through Regulation: The Wage and Profit Effects of the Occupational Safety and Health Administration and the Environmental Protection Agency," *Journal of Law and Economics*, Vol. 30, No. 2 (October 1987), pp. 239-264; B. Peter Pashigian, "The Effects of Regulation on Optimal Plant Size and Factor Shares," *Journal of Law and Economics*, Vol. 27, No. 1 (April 1984), pp. 1-28; B. Peter Pashigian, "Environmental Regulation: Whose Self Interests Are Being Protected?" *Economic Inquiry*, Vol. 23, No. 4 (October 1985), pp. 551-584.

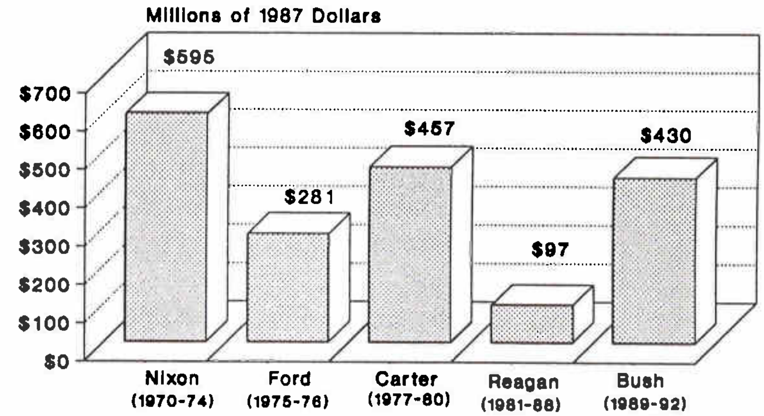
Example: In order to comply with federal fuel economy standards, automobile manufacturers have been forced to reduce the weight of their cars. But lighter cars tend to be less safe than heavier ones. Further, manufacturers are penalized for introducing safety features that might add to the weight of a car. With the fuel economy standard for automobiles at its current level of 27.5 miles per gallon, Robert Crandall of the Brookings Institution and John Graham of the Harvard School of Public Health calculate that between 2,200 and 3,900 more highway deaths and some 11,000 to 19,500 more serious injuries occur over the lifetime of each model year's cars than would have occurred without the standards.[37]

Example: A proposed law requiring a parent traveling by airline with an infant to purchase a separate seat for the child would make air travel prohibitively expensive for many families and induce families to drive instead of fly. Since flying is far safer than driving, the result would be more infant travel deaths, not fewer.

In these, as in many other cases of well-meaning regulation that imposes costs on a family, it is mainly the poor who suffer the unintended side effects, because poorer families cannot afford to pay the extra money for such things as larger, heavier cars or another airline seat.

Regulation can also reduce health and safety indirectly. Many studies have documented that mortality rates decline in wealthier societies, because these societies have more to spend on healthier and safer products, and on better medical care. Since regulation slows economic growth, it tends to reduce such life-style improvements.

Chart 5
Average Annual Change in Federal Regulatory Spending by President



Note: Fiscal Years. Regulatory data prior to 1970 are unavailable.
Source: Calculated by Heritage based on data provided by the Center for the Study of American Business.
Heritage DataChart

36 See, for example, Peltzman, *op. cit.*; Rubin, *op. cit.*, pp. 8-9; Sam Kazman, "Deadly Overcaution: FDA's Drug Approval Process," *Journal of Regulation and Social Costs*, Vol. 1, No. 1 (September 1990), pp. 35-54; Louis Lasagna, "The Chilling Effect of Product Liability on New Drug Development," in Peter W. Huber and Robert E. Litan, eds., *The Liability Maze* (Washington, D.C., The Brookings Institution, 1991), pp. 334-359.

37 Robert W. Crandall and John D. Graham, "The Effect of Fuel Economy Standards on Automobile Safety," *Journal of Law and Economics*, Vol. XXXII (April 1989), pp. 111-116. A federal appeals court recently ordered the Department of Transportation to reconsider its 1989 decision not to lower the standard from its current level of 27.5 miles per gallon to 26.5 miles per gallon, but the current standard will still remain in effect until the Department sets a new standard. *Competitive Enterprise Institute v. National Highway Traffic Safety Administration*, 956 F.2d 321 (D.C. Cir. 1992).

In the early 1970s, for instance, when the U.S. economy slowed and unemployment rates rose, mortality rates rose as well. While the relationship between regulatory costs and increased mortality is difficult to quantify precisely, two office of Management and Budget (OMB) economists recently surveyed the relevant literature and estimated that one additional premature death occurs for every $1.8 million to $7.25 million of additional regulatory costs imposed on the economy.[38] Wealthier truly is healthier.

THE TOTAL COST OF REGULATION

The overall cost of social regulation, which purports to protect health and safety, has risen since the Nixon years. Limited deregulation that took place between 1978 and 1988 in the areas of transportation, energy, telecommunications, and banking,[39] did cause the cost of economic regulation to fall for about a decade. Because the decline in the cost of economic regulation outweighed the growth in the cost of social regulation during this period, estimates by Thomas D. Hopkins, former Deputy Administrator of the Office of Management and Budget's Office of Information and Regulatory Affairs, and now a professor of economics at the Rochester Institute of Technology, suggest that the total cost of federal regulation fell by between 15 and 22 percent from 1977 to 1988.[40]

However, because there was almost no major deregulation after 1988, the cost of economic regulation no longer is falling. Meanwhile, the cost of social regulation, particularly in the area of the environment, has continued rising, especially since Bush took office. Taking economic and social regulation together, the total cost of federal regulation has climbed by some 10 percent to 12 percent since 1988, according to Hopkins's numbers.[41] Moreover, if current trends continue, the total cost of federal regulation can be expected to rise by at least another 24 percent by the year 2000.[42] In fact, the total cost of federal regulation will have returned to its 1977 level by 1997 at the latest. It may even reach this level by the end of this year, depending mainly on how soon and how severely the regulatory costs of the Clean Air Act Amendments and the Americans with Disabilities Act are felt.

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38 The existing literature on this point has been summarized in the *Federal Register*, Vol. 57, No. 114 (June 12, 1992), pp. 26005-26009. See also Aaron Wildavsky, *Searching for Safety* (New Brunswick, New Jersey: Transaction Books, 1988) (especially Chapter 3, "Richer Is Sicker v. Richer Is Safer"); Daniel J. Mitchell, "The Deadly Impact of Federal Regulations," *Journal of Regulation and Social Costs*, Vol. 2, No. 2 (June 1992) (forthcoming), pp. 45-56.

39 Although banks by and large have not been deregulated, the federal government did remove its restrictions on the interest rates that banks pay to their depositors.

40 These percentages were calculated based on figures provided by Thomas D. Hopkins in "Cost of Regulation," Rochester Institute of Technology Working Paper, December 1991, Tables 5A and 5B. An abridged version of this paper, which does not contain the various tables, appears in the *Journal of Regulation and Social Costs*, Vol. 2, No. 1 (March 1992), pp. 5-31.

41 *Ibid.*

42 Percentages for the year 2000 were calculated based on the figures provided by Hopkins, *ibid.*, supplemented by Murray Weidenbaum's estimate of the cost of implementing the Clean Air Act Amendments of 1990, provided in Weidenbaum, *op. cit.*, p. 3.

Enormous Cost. To be sure, the precise cost of regulation is extremely difficult to determine. Nonetheless, combining the estimates of different scholars suggests that the direct costs of regulation on the economy currently amount to at least some $635 billion to $857 billion per year, or between $6,565 and $8,869 annually per household. Even after subtracting the applicable benefits of regulation, using the most generous estimates available, the net direct cost of regulation is some $364 billion to $538 billion per year, or between $3,762 and $5,561 annually per household. These figures include the costs to businesses and consumers of complying with environmental and other social regulations, the total cost to consumers in the form of higher prices and reduced choices due to economic regulations, the costs imposed by government paperwork requirements, administrative costs due to federal regulation of health care, and the direct costs imposed by state tort law. These figures even include cost estimates for two types of economic regulation which past studies have omitted due to a lack of data—banking regulation, and regulation of electric utilities, although the estimates for banking regulation still omit some important kinds of banking regulation.[43]

These figures also include a range of estimates for the cost of the Clean Air Act Amendments and the Americans with Disabilities Act. They do not, however, take account of the 1989 increase in the federal minimum wage, the 1991 Civil Rights Act, the 1990 Nutrition Labeling and Education Act, the 1990 Pollution Prevention Act, or the increase in antitrust enforcement activity by the Justice Department and the Federal Trade Commission.[44] Nor do they include the cost of federal government mandates on state and local governments, or of most forms of state or local regulation.

Most important, the cost estimates given do not include any of the indirect, dynamic effects of regulation. In particular, the figures do not include any estimate of the reduction in productivity and output caused by the direct costs, or of the impact of regulation on technological innovation. While the productivity effects are difficult to quantify and the effect on innovation is impossible to quantify, a number of studies suggest that, taken together, the indirect costs due to reduced productivity and innovation probably are greater than the direct costs counted above.[45]

43 In particular, the cost estimates for banking regulation still do not account for the costs of geographic restrictions, restrictions on banks' products, services and investments, or minimum capital requirements.

44 In fact, these figures do not include any estimate at all of the costs or benefits of antitrust or civil rights laws, even aside from recent statutory or enforcement policy changes.

45 See, e.g., Hazilla and Kopp, *op. cit.*; Dale W. Jorgenson and Peter J. Wilcoxen, "Environmental Regulation and U.S. Economic Growth," *Rand Journal of Economics*, Vol. 21, No. 2 (Summer 1990), pp. 314-340. Both studies show that reductions in labor supply, savings and investment, growth in the capital stock, and output tend to accumulate over time. As a result, under each study the total costs imposed by environmental regulation end up being more than twice as large as the direct compliance costs alone. Indirect support for the notion that total costs are probably at least twice as large as direct costs, conventionally measured, is also provided by a number of studies cited by Hahn and Hird, *op. cit.*, pp. 255-258, dealing with economic regulation in the transportation sector. As the comparison shows, estimates of the costs of transportation regulation made before the partial deregulation that occurred in the late 1970s and early 1980s were consistently and substantially below the levels of benefits that were observed in the aftermath of deregulation.

Assuming instead that the indirect costs only amount to somewhere between 50 percent and 100 percent of the direct costs, it appears that the total cost of regulation, excluding those categories already noted, and net of all benefits, could be anywhere between $811 billion and $1.656 trillion per year, or between $8,388 and $17,134 annually per household.[46]

The additional cost of between $447 billion and $1.118 trillion per year represents the amount by which Gross Domestic Product (GDP) would exceed its current level ($5.672 trillion in 1991) in the absence of all unnecessary costs due to state and federal regulation.[47] Some 20 percent of this additional GDP, or approximately $83 billion to $216 billion, would go to the federal government as increased tax revenue, thus reducing the federal budget deficit.

As noted previously, the cost figures just presented were net of all applicable benefits. It is important to realize that economists count transfers from one group to another as benefits as well as costs. Thus, for example, if import restrictions on sugar cost consumers $10 billion per year but enrich American sugar growers by $8 billion per year, economists treat the $8 billion as a benefit and subtract it from the $10 billion gross cost to obtain a net cost of $2 billion. If transfers are not subtracted as benefits, then the total cost of regulation works out to somewhere between $1.056 trillion and $1.969 trillion per year, or between $10,922 and $20,376 per household. By way of comparison, Americans will pay an estimated $1.053 trillion in federal taxes in 1992,[48] or about $10,897 per household. Although these estimates are subject to considerable uncertainty, it is quite possible that the total cost of regulation now exceeds the total cost of taxation.[49]

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46 Although a regulatory cost estimate ranging between 14.3 percent and 29.2 percent of total Gross Domestic Product may seem high at first blush, it is actually quite plausible. Between one-half and two-thirds of whatever figure one uses represents an estimate of the amount by which GDP would have been greater, in the absence of all unnecessary costs of regulation, than it actually will be, and a considerable portion of the remainder represents losses that are not currently counted in GDP because they do not involve market transactions, such as the time spent preparing one's own tax return, or in an airplane waiting to take off or land because federal regulations do not allow airports to charge market-based takeoff and landing fees. Thus, the percentage of currently recorded GDP that is attributable to regulatory costs is much smaller than these estimates might at first appear to suggest.

47 Insofar as some types of regulation—environmental regulation in particular—produce benefits as well as costs, one may not simply assume that all of the costs of regulation can be eliminated. However, even where existing regulations may produce benefits that exceed costs, it often appears that the same or even greater benefits could be obtained at a significantly lower cost by using better-designed, more efficient forms of regulation. Consequently, in calculating the foregoing figures, wherever a regulation appeared to produce net benefits, no cost was counted except the difference (if any) between the actual cost imposed by the regulation in question and the lower cost that would be incurred under a more efficient regulatory scheme. Because the necessary costs of benefit-justified regulation were omitted in calculating net costs, so were the benefits. By definition, the benefits of the regulations in question could have been obtained without incurring the costs that were counted here. Under this approach, the only benefits that need to be subtracted from costs are the benefits of regulations whose benefits are less than costs.

48 This figure represents total estimated federal tax receipts for 1992, net of refunds, income from trust funds, earnings of the Federal Reserve System, and other miscellaneous receipts. See *Budget of the United States Government: Fiscal Year 1993, Supplement* (Washington, D.C.: U.S. Government Printing Office, February 1992), Part Five, Tables 2.1 and 2.5.

49 Even if one subtracts transfers and only compares efficiency losses, counting the burden of tax-related paperwork

CONCLUSION

The U.S. economy is being strangled by new regulation, much of which has come into being during George Bush's term of office. As a result, the total cost to the economy of state and federal regulation actually may now exceed the total cost of taxation.

In large measure, the growth in regulation and its burden has been due to a failure on the part of the President, Congress, and the regulatory agencies to consider the full cost of regulation. In their desire to do good in a particular area, policy makers often fail to take sufficient account of the broader consequences. Even when they consider the costs of regulation, generally they fail to focus on the burdens caused by regulation taken as a whole.

Much More Needed. Although President Bush often complains about the burden placed on the economy by excessive regulation, only Richard Nixon in the last two decades has done more to add to this burden. Bush, however, is to be congratulated on his moratorium on new Executive Branch regulations. This is a necessary first step in coming to grips with the regulatory crisis. But much more needs to be done. Bush should seek more resources for Vice President Quayle's Competitiveness Council. And he should appoint a dynamic, activist deregulator to head the Office of Information and Regulatory Affairs. Finally, he should highlight the many ways that the public health and safety can be protected without the heavy hand of government.

As the world becomes more economically integrated, and as countries in Latin America and in the former communist bloc join the ranks of the world's free market economies, American businesses will face ever increasing competition. The U.S. no longer can afford to cripple its enterprises with costly and unnecessary regulations.

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under taxation rather than regulation, it still turns out that regulation may now be more costly than taxation.