

Introduction

Reining in America's Regulatory Leviathan: America Gets a Second Chance

By Fred Smith

My grandmother used to tell me, “It doesn’t matter whether your socks are red or blue, you should change them frequently.” Americans did just that recently. To change metaphors, voters have chosen many new horses to run on the political race track. So far, this new team seems promising. They have killed the House climate-change subcommittee and refused to increase taxes. Yet the Washington race track still veers left. Our challenge is to pull the reins of these new entries toward limited government.

We at the Competitive Enterprise Institute (CEI) have spent 26 years raising the saliency of regulations on our economy. Taxes and spending receive plenty of public scrutiny, which makes regulation an increasingly attractive option for those who favor greater political intervention in the economy. Our goal is to ensure that regulations are subject to the same degree of oversight as taxes, spending, and legislation in general. The Tea Party movement’s success in the recent elections suggests that awareness of these burdens is growing. Thus, we are more hopeful that economic liberty and regulatory reform will make some significant headway in 2011. To further that goal, CEI is unveiling a *Liberate to Stimulate* deregulatory agenda, which is summarized in this document.

The mixed economy has weakened market disciplines, while overreaching regulations have

encouraged irresponsible and erratic actions. The continuation of the recession owes much to the fact that few entrepreneurs find it prudent to invest in a world where rules change unpredictably and constantly at the whim of regulators.

Opportunities abound for true reform in the new Congress, and CEI is proposing a strategy to pursue them. We are confronting all forms of state intervention head on—including government mandates, regulations, subsidies, private sector rent-seeking, and the moral hazards created by the socialization of risk. To that end, this Agenda for Congress outlines actions to advance a world of freedom and responsibility—a restoration of the Founders’ vision of limited government.

Unlike their European counterparts, who sought outright government ownership of industry, 20th-century American Progressives left the illusion of free markets in place, while imposing an array of mandates on businesses via taxes, regulations, and subsidies. Under the European model of direct government ownership, the costs of statist policies are more apparent and easily attributable to politics. In contrast, the American regulatory welfare state hides costs from government balance sheets, and those costs are borne by businesses and consumers. Political failures are blamed on the

private sector, making it all the more difficult to rein in the regulatory state. We seek to find creative ways of disciplining the excesses of government, a task needed now more than ever.

In 2011, we will have a new team in Washington. Freshman legislators, backed by their constituents, have promised to reduce the size of government. But that effort will not be easy. After all, the weakening of the limits on government power took over a century, beginning with the Progressive era in the early 20th century. There are no magic bullets to dismantle Leviathan. Decades of overspending, overregulating, and overintervening must be rolled back incrementally, as they were imposed. Recall that in 1994, small-government Republicans roared into Washington with an ambitious reform agenda—and soon became mired in the bogs of the Beltway. If today's Republicans replicate their predecessors' mistakes, their tenure will be even briefer.

Real change is needed. The economic “emergency” measures advanced by the Bush and Obama administrations have done little to alleviate the financial crisis—and likely made it worse. Top-down solutions have failed. Attempts to continue this approach are unlikely to result in political gains. The disasters unfolding in Greece and Ireland, and threatening all of Europe, drive that lesson home. Back home, California, Illinois, and other states teetering on bankruptcy from overspending and unfunded state retirement pensions create pressures for further bailouts that must be resisted.

CEI will work with the new Congress on advancing solutions to these issues. We look forward to sharing our ideas on how to jumpstart the nation's economic engine, to reengage America's entrepreneurial spirit. We have a lot of work to do.

Botched, partial deregulations have hampered many sectors of the economy—including such crucial network industries as electricity, telecommunications, and airlines. The solution is not increased state control or infrastructure subsidies, but *true liberalization*. The immediate challenge is to fight against the typical Washington “do something” mantra—that is, to “do something” to expand the government's role—and, instead, ask legislators to remove and reduce the barriers to economic growth. CEI believes that “doing something” can mean doing less: Congress doesn't need to tell the grass to grow; rather it need only move the rocks off of it!

With major opportunities, come major risks. As a Louisianan, I am well aware of populism's allure in the name of “helping the little guy,” even when that help hurts everyone else and creates long-lasting economic damage. The Bush-Obama interventions in areas like health, education, finance, and the environment threaten the dynamism of America's market economy. We will work, as we always have, with lawmakers of both parties to oppose bad ideas, and to advance good ones.

In recent Congresses, both Republicans and Democrats massively expanded the federal government—and voters punished them for it. Now the voters have granted the Republicans a tentative trust to set the ship of state aright. They can deliver on this charge in today's globalized world and retain their power only if they succeed in crafting, marketing, and implementing a truly pro-growth agenda.

Economic liberalization must lie at the heart of that agenda. This volume offers policy proposals to the reformers of all parties to help boost economic and personal liberties. It will be an interesting few years. We plan to see this race to the finish.