The Deregulation That Wasn't

As we approach the election, one of the key Democratic talking points is the assertion that the economic mess we are still in was caused by unwise Republican deregulation.

In the second presidential debate of 2008, Candidate Obama remarked, "[Regulation] is a fundamental difference that I have with Senator McCain. He believes in deregulation in every circumstance. That's what we've been going through for the last eight years. It hasn't worked, and we need fundamental change."

Republicans, the story goes, are in bed with greedy capitalists and eager to pollute the earth, air, water, and financial markets if it helps their wealthy buddies turn a profit.

To be sure, Republican politicians since Ronald Reagan have often talked a good game when it comes to deregulation. But did they really deliver?

It is difficult to know exactly how large the cost of regulation is for society, but one useful measure is simply the amount of government resources dedicated to supporting the regulatory structure. An invaluable recent report by Susan Dudley and Melinda Warren (published by George Washington University and Washington University) tracks recent trends in regulation.

While the study considers many measures, the nearby chart focuses on one in particular, plotting the number of people employed by the main federal regulatory agencies, including the Departments of Treasury, Energy, Labor, Transportation, Agriculture, and Commerce, as well as the Federal Reserve.

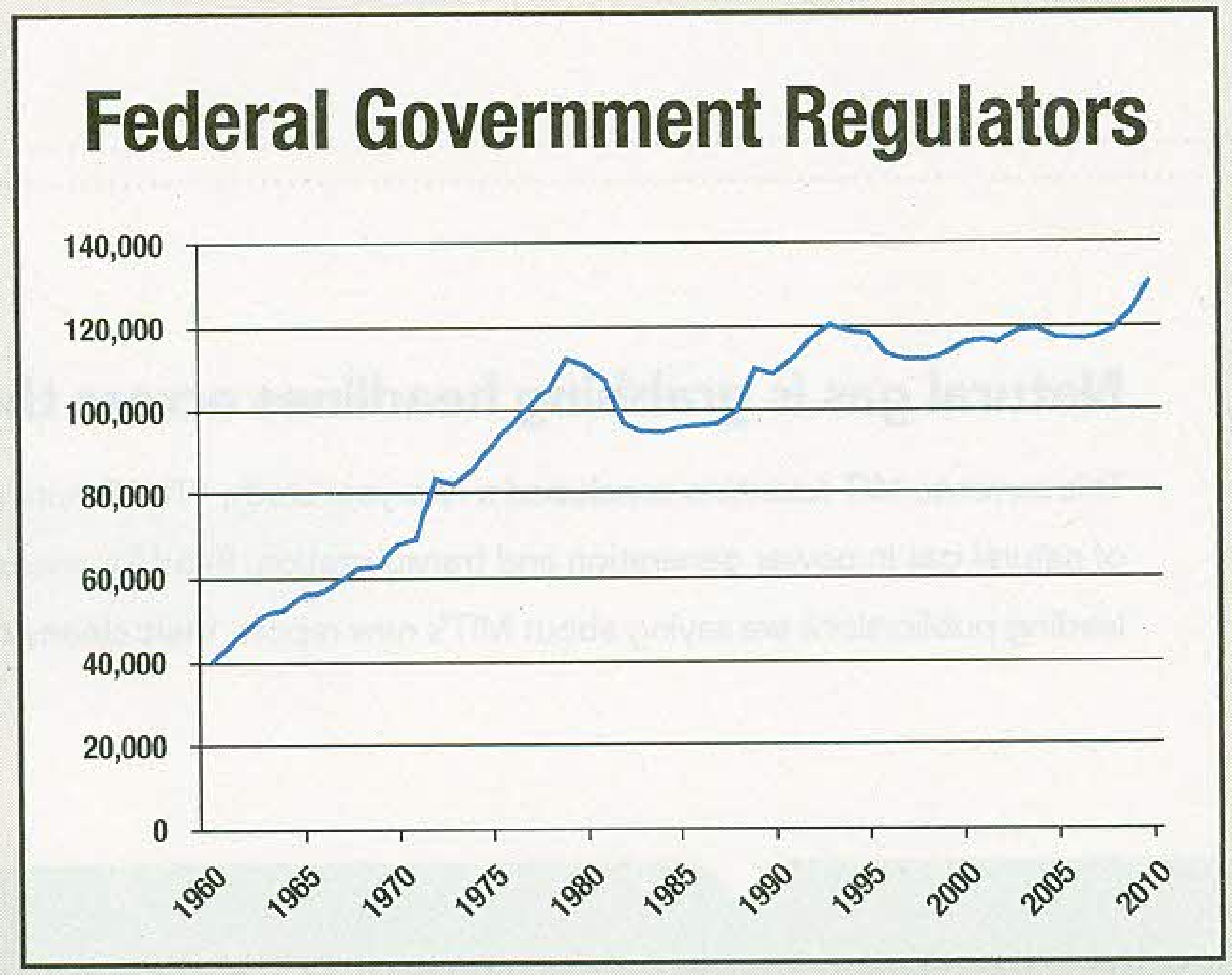
Over the past half century, the number of government regulators has more than tripled, from approximately 40,000 in 1960 to 124,000 in 2009. It increased at a fairly steady rate except for two notable periods. The number declined under Ronald Reagan, from 111,000 in 1980 to a trough of 95,000 in 1984. George H. W. Bush reversed all of Reagan's progress, but then, surprisingly, Bill Clinton's attention to reducing the deficit took a toll on regulators as well.

Under George W. Bush, the number of regulators increased from 115,000 to 119,000, hardly a Reaganesque outcome. If we include homeland-security personnel, the number of regulators increased under George W. Bush from 176,000 to 249,000.

Economist George Stigler taught us that the problem with regulation is that regulators tend not to be successful, in part because they get captured by the firms they are supposed to be policing. An unsuccessful regulator can lead to a bigger crisis than might happen absent any regulation, because unwary private individuals are lulled into complacency.

Given that Bush handed Obama a regulatory work force that was at least 3.3 percent larger than the one he inherited from President Clinton, there is very little evidence that Bush did much to reduce intrusive regulation during his term. And given the growth in regulation over the period leading up to the financial crisis, it is also difficult to support the view that deregulation had anything to do with it. The next time you hear someone blame deregulation, your answer should be: "What deregulation?"

—KEVIN A. HASSETT



SOURCE: DUDLEY & WARREN, "A DECADE OF GROWTH IN THE REGULATORS' BUDGET: AN ANALYSIS OF THE U.S. BUDGET FOR FISCAL YEARS 2010 AND 2011." NOTE: DOES NOT INCLUDE DEPARTMENT OF HOMELAND SECURITY EMPLOYEES.