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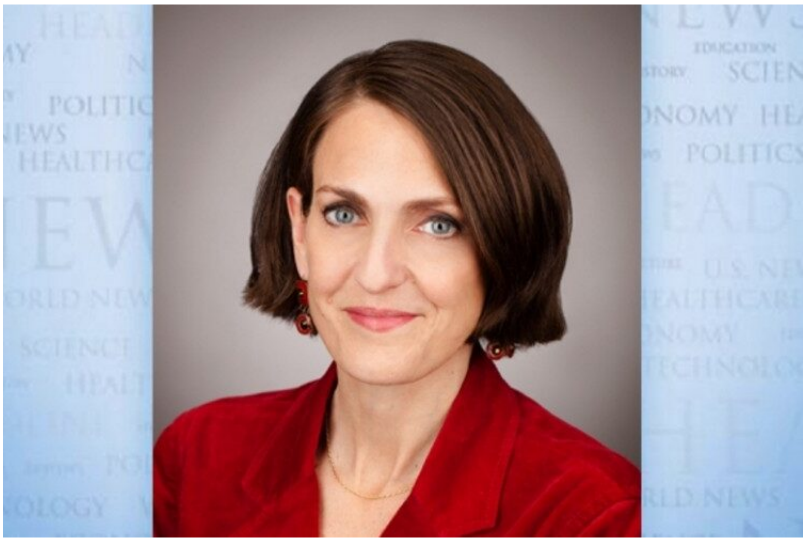
Are More Progressives Coming Around on Overregulation?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George McGovern, the Democratic Party's 1972 presidential nominee, was a liberal icon. During many years in political office, including as a U.S. senator from South Dakota, McGovern successfully championed loads of regulations, taxes and mandates in the name of the public good. But as a businessman, he was held back to the point of failure by the same sorts of burdens he had once earnestly promoted to achieve lofty goals.

For today's most overzealous politicians, McGovern's story is worth retelling.

In 1988, seven years after leaving the Senate, McGovern took over the lease of the Stratford Inn in Connecticut. For the first time, this former politician experienced what it meant to operate a business while obeying government dictates and shouldering business taxes designed by people with little firsthand experience in the marketplace. In the end, the inn failed, leaving McGovern with many observations about the disconnect between politicians' dreams and business owners' realities.

In a 1992 *Wall Street Journal* op-ed titled "A Politician's Dream Is a Businessman's Nightmare," McGovern recounted how, as a senator, he didn't realize just how costly regulatory compliance is. He was unaware of how well-intentioned regulations often produce bad outcomes, how taxes dampen investment and how mandates make it harder to innovate or survive, especially during recessions.

As McGovern wrote, "the concept that most often eludes legislators is: 'Can we make consumers pay the higher prices for the increased operating costs that accompany public regulation and government reporting requirements with reams of red tape.'" He added: "In short, 'one-size-fits-all' rules for business ignore the reality of the marketplace."

Indeed. A well-functioning marketplace requires rules — institutions such as property rights, an unhindered system of profit and loss and a fair and stable law of contract. It also requires an abundant level of freedom within the confines of these institutions.

Fundamentally, most government interventions into the market tinker with these institutions and hamper that freedom.

One example is requiring that companies provide their employees with child care benefits. Sounds great, but this requirement interferes with the contractual negotiation between employees and employers about what the right mix of wages and benefits should be. Because employers cannot dispense benefits for free, and because every firm and individual is different, mandating higher benefits means mandating lower wages. It's that simple.

Mandating that companies always use U.S.-made materials in their infrastructure projects is another example. It subjects factories to burdensome permitting processes that raise costs and increase the time required to complete construction plans. At some points, even when companies have the necessary financial and physical capital, the extra costs dissuade them from pursuing their original goals.

Other businesses — as McGovern learned the hard way — are brought to their knees by the costs.

Excessive government interferences in the market also get in the way of politicians' dreams financed through spending. The higher cost of building infrastructure, for example, means that each dollar spent on a new school or clean energy project doesn't go as far as it otherwise would. Sometimes promised projects don't even get built.

This government-created inefficiency, unsurprisingly, affects things like the Inflation Reduction Act, a $400 billion statute meant to build green energy. Now, some people are worrying that this plethora of regulations could get in the way of building anything. This worry is justified.

As the *Wall Street Journal* reported, government spending is flowing at a time when "new wind installations plunged 77.5% in the third quarter of 2022 versus the same period the year before, according to S&P Global Market Intelligence. New utility-scale solar installations likely fell 40% in 2022 compared with 2021." The culprits? Overregulation, tariffs meant to ban sourcing from China and opposition by NIMBYs to building.

The same will be true of any industrial-policy objectives that politicians pursue, such as the CHIPS Act with its $52 billion in subsidies to build microchips. Factories will have to be built in an already overregulated environment, and the administration just added mandates that subsidy beneficiaries provide child care, buy American, cease stock buybacks and more.

The administration claims it's doing this for workers, but it's not considering ramifications like, for example, how subsidizing companies' child care centers could exacerbate provider shortages in nearby centers, which, due to state regulations, cannot hire capable workers without college degrees.

Politicians today could learn from McGovern's epiphany and honesty. An excessive amount of government will only stifle entrepreneurs and prevent long-term policy goals from ever playing out. It will also get in the way of the government itself.

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