



Written by [Walter McLaughlin](#) on June 13, 2016

## Regulatory Overreach Is Killing Small Businesses

*Bureaucracy is like a fungus that contaminates everything. — Jaime Lerner*

By virtually all measurements, the health of the overall economy is highly dependent on growth of the small business sector.

Although the definition of “small business” varies, firms with fewer than 500 workers employed 56.1 million in 2012 — the lion’s share of the overall workforce.

On the surface, political support for small businesses appears to be broad-based. The subject is routinely woven into the stump speeches of congressional members, and on the executive side, Whitehouse.gov lauds the efforts of the Small Business Administration (SBA) in helping provide access to nearly \$163 billion of capital to small businesses since 2009.

With that said, entrepreneurship declined during the Great Recession and its immediate aftermath. According to the Kaufman Index, new start-up activity plunged from 2009 through 2014. Despite a solid rebound in 2015, start-ups remain at a level not seen in a generation. What’s going on?

### Slow Economic Growth

The willingness of a potential entrepreneur to take the plunge and start up their own small business is correlated with the strength of the economy. Or at least the *perception* of the economy. To that end, the current state of affairs is decidedly not good.

According to a recent poll by *The Economist/YouGov*, the number of people who feel the United States is on the wrong track is 67 percent, with just 25 percent believing things are going well. The narrative is largely the result of an economy that has grown excruciatingly slowly: GDP growth over the past five years clocked in at just 2.4 percent. Unless 2016 picks up drastically, the Obama presidency will be the first in which no single year will have experienced an increase of three percent or higher.

Lee Atwater is credited with coining the phrase “perception is reality,” and in this case, it’s clear that the slow-growth economy has been a major damper on small business activity. For those already in business, however, a different dynamic is at work — a growth-stifling regulatory climate.

### Rules Promulgation Is Out of Control

Starting a small business is difficult enough without considering the ever-growing maze of rules and regulations foisted upon the small business owner. In fact, 2015 was a record-breaking year in that regard. Per Clinton Alexander of *The New American*:

Six of the seven years with the most regulations on record have been under President Obama, with the 2010 *Federal Register* holding the previous record at a massive 81,405 pages.





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Contained in the Leviathan of this year's *Register* are 3,378 final rules, regulations, and notices. According to CEI Vice President for Policy Clyde Crews, in addition to those final rules, there are another 2,334 proposed rules that are in various stages of deliberation.

Alexander sums up the net effect of the massive surge in rules promulgation as follows:

As the *Federal Register* grows ever more mountainous as the years pass, American industry continues to stagger under the load of regulations, and citizens' rights are eroding at a breakneck pace. The electorate — those who wield the true power in the form of a vote — must pressure their elected officials to abide by their oath of office and uphold the U.S. Constitution. And if those officials do not comply, then it is the duty of the citizens to put people in office who will. The answer to the mushrooming regulatory state lies in upholding the Constitution.

Perhaps no target of regulatory zealotry is more impacted than small businesses. Unlike larger firms, they lack the economies of scale to absorb the additional regulatory burden. Likewise, such is the case in the banking industry: From 2000 through 2014, the number of small banks declined from 8,263 to 5,961, with the trend likely to continue into the future.

### **Success Breeds More Rules**

The U.S. Small Business Administration provides incentives to finance start-ups, young companies, and other disadvantaged businesses by issuing partial guarantees or other credit enhancements to the lender. The agency's loan programs are 100 percent user financed, with fees and charges sufficient to cover loan losses; thus, no taxpayer dollars are at risk. As stated earlier, the SBA has helped pump \$163 billion of capital into the economy since 2009, not to mention start thousands of businesses.

And with many lawmakers not willing to leave well enough alone, further regulations are on the horizon. Senators David Vitter (R-La.) and Jeanne Shaheen (D-N.H.) introduced a bill entitled the Small Business Lending Oversight Act of 2016, which would layer further reporting, restrictions, and penalties on an already highly regulated agency. As a double-whammy, despite the SBA's programs being at zero-subsidy, the bill imposes additional fees and taxes on lenders, the net effect being to further restrict capital to small businesses.

### **The Cost of the Current Regulatory Climate**

How much do regulations cost the economy? According to a new report by the Competitive Enterprise Institute (CEI), a mind-boggling \$1.88 trillion.

Federal regulation and intervention cost American consumers and businesses an estimated \$1.88 trillion in 2014 in lost economic productivity and higher prices, amounting to roughly \$15,000 per household.

Economy-wide regulatory costs amount to an average of \$14,976 per household — around 29 percent of an average family budget of \$51,100. Although not paid directly by individuals, this "cost" of regulation exceeds the amount an average family spends on healthcare, food, and transportation.

To put it in perspective, the CEI's estimate of U.S. regulatory costs equals the size of Russia's and Saudi Arabia's gross domestic products *combined*. On its own, the total would put it in the top 10 of the world's largest economies. Imagine if just half the total were returned to the economy instead of wasted on compliance — GDP growth would be booming. The government is literally cutting off its nose to spite its face.



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With that much lost productivity, it's little wonder that GDP growth has languished in the two percent range for over a decade.

### **The Solution: Follow the Constitution**

Unnecessary bureaucracies that soak up taxpayer dollars for purposes that can be performed by the states should be eliminated. It's a simple solution to a complex problem that would doubtlessly relieve the crushing burden of federal regulations foisted upon small businesses.

The Founding Fathers would agree. As Alexander Hamilton wrote, "It's not tyranny we desire; it's a just, limited federal government." Somewhere along the way, the government lost its way as to what its true purpose was designed to be.



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