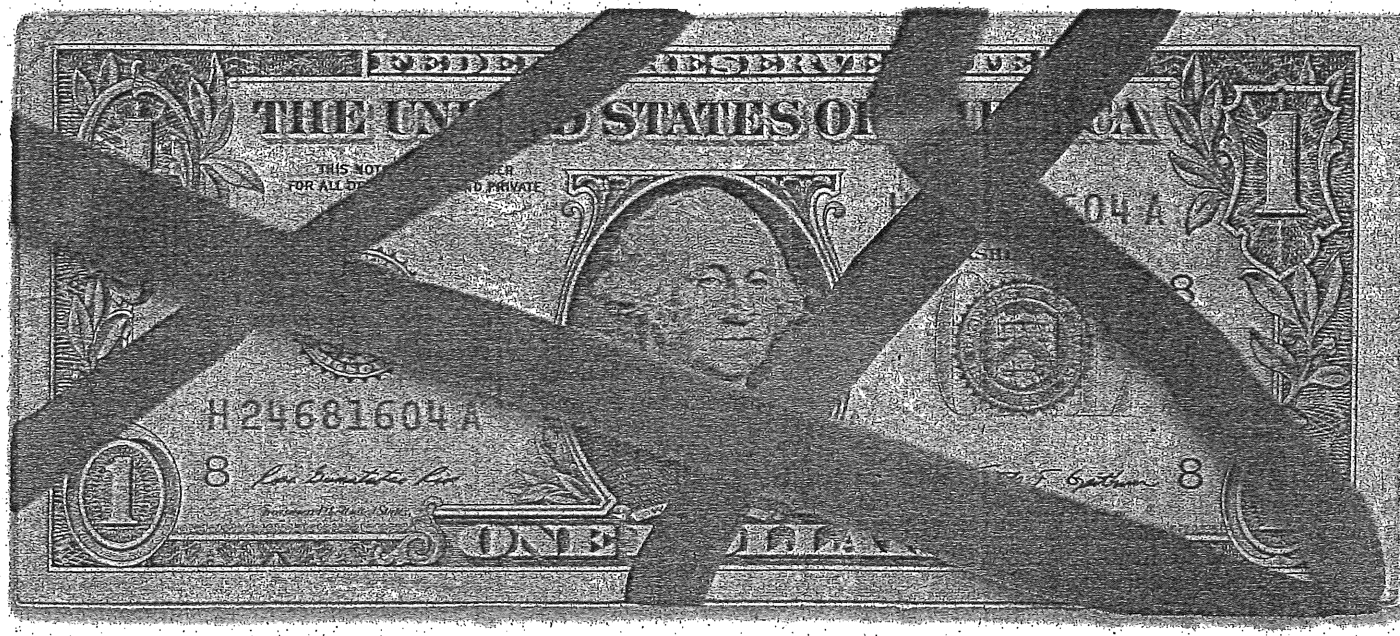
The red-tape economy

U.S. jobs all tied up



Illustration/The Clarion-Ledger

■ Citizens not only feel bound by red tape, but economic rebound stifled

By Ashby Foote
Contributing columnist

Southwest Airlines may be on to something.

Its latest ad campaign features giant balls of red-tape chasing travelers down airport concourses like escaping Indiana Joneses. The campaign's message: Air travelers are frazzled, frustrated and fed-up with all the superfluous paperwork and special gotcha rules they must comply with to use their frequent flyer miles.

Picture hundreds of thousands of those balls of red-tape chasing America's workers and business leaders across factory floors and down office hallways.

Foote

Comical as it may be, red-tape is a serious, if mostly unseen, drag on America's job machine.

It is also a prime reason that the recovery from the "great recession" has been so frustrating for so many.

The trillions in bailouts and stimulus were supposed to save and create jobs, but the dismal data to date defies explanation.

According to the Bureau of Labor Statistics, the downturn in employment accompanying the '07-'09 recession is now the broadest and deepest since World War II.

The bureau goes on to point out that, two years into the recovery, employment remains 7 million jobs below the 138 million job peak reached in January 2008.

Meanwhile, the leadership of both political parties, firm in their traditional trenches, square off in the usual binary debate of spending versus tax-rates.

The reality though, in today's highly complex economy, is that other factors exist that can put a double whammy hex on economic activity.

Bureaucracy, and its intertwining entanglements of administrative paperwork and regulations, is surely the most pernicious and underappreciated such factor.

Just how burdensome red-tape can be is explained in a study released last September by the Small Business Administration.

The study estimated the annual cost of federal regulation for calendar year 2008 at $1.75 trillion.

This is a shocking number as it exceeds by $250 billion the $1.5 trillion the IRS expects taxpayers to pay in personal income tax for all of 2011.

By type, the costs are: Economic $1,236 billion; Environmental $281 billion; Tax Compliance $160 billion; and OSHA and Homeland Security $75 billion.

Per the study, the 2008 costs equate to $15,586 per U.S household — up an alarming 50 percent from $10,362 in 2000.

Furthermore, it is reasonable to assume the household burden will be higher yet in 2011. Why? Look no further than the major new laws reforming the credit card industry, financial services and health care.

But, first, it's important to separate the sizzle from the steak. The first rule of evaluating reform legislation is to "take with a grain of salt the lofty sounding titles of the legislation in question."

A good example of a badly named law is the "Federal Housing Enterprises Financial Safety and Soundness Act of 1992."

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Passed with great public fanfare and, unfortunately, much behind the scenes handiwork of Fannie Mae lobbyists, the act turned out to be anything but safe and sound.

Combined with other well intended but errant policies, it set the gears in motion for the "overbuild" in housing that would nearly topple the U.S. banking system 16 years later.

As is so often the case with grandiose plans, the unintended consequences can be exasperating if not devastating.

The Credit Card Accountability, Responsibility and Disclosure Act — CARD — was signed in to law in May 2009. Unfortunately, by the time the rules finally took effect in February 2010, credit card companies had slashed outstanding credit lines by $1 trillion.

Many of those lines were to small businesses where credit cards provide important access to capital during difficult times. And 2009-10 certainly qualified as difficult

See RED TAPE, 2C

Red Tape: Zeal to limit failure risks innovation

From 1C

times. How many small businesses failed or retrenched due to those reduced credit lines is unknown.

The Dodd-Frank Wall Street Reform and Consumer Protection Act became law in July 2010.

This effort to end "too big to fail bailouts" resulted in a 2000-page bill that for 99.9 percent of the populace, is simply too big to comprehend.

The bill creates a vast new array of commissions, councils, offices, bureaus and committees along with new mandates and empowerments for existing agencies.

The newly created Financial Stability Oversight Council sits atop this labyrinth of interwoven rules, regs and responsibility.

The Council includes members from the Federal Reserve, Treasury, SEC, CFTC, OCC, FDIC, FHFA, NCUA and CFPB. If high-powered committees are the solution to high-powered problems, we should be in great shape.

Alas, history suggests otherwise.

The Patient Protection and Affordable Care Act (PPACA/ a.k.a. Obamacare) was signed into law in March 2010. It is easily the most sweeping reform of a large, complex and vital slice of the economy in over half a century.

The massive rollout of rules, regs, mandates, boards, etc., will take years to write and put in place, and longer to be understood by those who fall under its auspices — which is just about everybody.

A sign of bureaucratic turmoil ahead is the granting by the Department of Health and Human Services of 1,370-plus waivers to businesses and unions for rules that don't even take effect until 2014.

The magnitude of new regulatory-compliance costs continues to be a major drag on the economic recovery.

A key challenge we face is managing the natural tension between the innovation that drives economic growth and regulatory regimes.

Failure is a necessary and integral by-product of the dynamic and messy process of innovation.

Regulatory zeal focused on preventing or limiting failure risks minimizing the very innovation that drives growth, wealth creation and the jobs that follow them.

The good news in 2011 is that America is still the world leader in innovation and breakthrough technologies. ■

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