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Consumers Are the Best Regulators

Many regulations prevent aspiring entrepreneurs from starting a business.



Even a mini-microbrewery couldn't stand up to the government's out-of-whack regulations.

By Antony Davies

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My wife makes beer. Very good beer. Years ago, we talked about starting what we called a “picobrewery” – something smaller than a microbrewery, like a hobby with a positive cash flow. We figured that for a few thousand dollars, we could create a small business that would provide part-time employment for several people, generate a unique product, and maybe one day would grow into something more substantial.

What we didn't count on was regulation. No one was more concerned about our customers than us – not just because we'd be financially liable if our product harmed someone, but also out of a human concern. Our customers were also our neighbors and friends. Yet here was the government telling us, through rules written by people who had never brewed beer, what to do to protect customers whom those people had never met and for whom they held no responsibility.

When we discovered that complying with regulations would triple our startup costs while providing no significant benefit to anyone other than people paid to serve as government inspectors, we gave up our dream. Maybe our little business would have grown into something large that employed many people. Maybe not. The point is that we'll never know because we never got the chance to take a chance.

[[GALLERY: Cartoons on the Economy](#)]

Multiply our experience by hundreds of thousands and you start to get a picture of the dark side of government regulation. Politicians tell us that regulations exist to protect consumers and the environment. Some regulations do. We certainly don't want companies throwing their trash in our rivers or belching toxins into our air. But many more offer few, if any, benefits while imposing quite substantial costs on the economy.

environment. Some regulations do. We certainly don't want companies throwing their trash in our rivers or belching toxins into our air. But many more offer few, if any, benefits while imposing quite substantial costs on the economy.

Regulatory agencies don't add rules simply for the sake of burdening the private sector. However, regulations often have the effect of protecting large corporations from competition or of helping to justify the existence of the regulatory bodies creating and enforcing the rules. At the state level, government regulation has become so lucrative for crony-capitalists that today [almost 40 percent of U.S. jobs require a government license](#) versus about 5 percent a generation ago. [Louisiana](#) requires \$2,000 plus 80 hours of study to become a florist, while [Utah](#) requires hair braiders to get a beautician license that costs \$18,000 and 2,000 hours of study.

It would be bad enough if regulations only lined the pockets of crony-capitalists. But regulations also sap our productivity. In a [recent study for the Mercatus Center](#), I compared the magnitude of federal regulations to productivity across 51 industries over the past 14 years. The statistics are alarming. Productivity among the least regulated industries is almost double that of the most regulated industries. Over the 14 years, the most regulated industries saw their unit labor costs rise by 20 percent versus a decline of 4 percent for the least regulated industries. Lower productivity means higher prices for consumers. Higher unit labor costs means increased unemployment as firms replace workers with machinery.

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The sobering reality is that there is no such thing as an unregulated market. All markets are regulated. The question is whether they are regulated by the government or regulated by consumers. Consumers are the better choice because they know, better than government, what they do and do not want. And they can punish, better than government, firms that don't give them what they want.

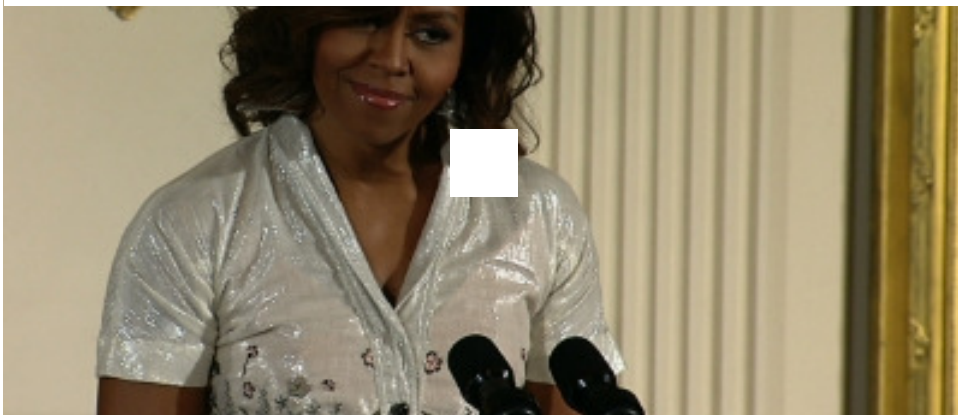
The only reason people would buy our picobrewery's beer is because they liked it better than they liked keeping their dollars in their pockets. The minute our beer no longer satisfied consumers, they would regulate us out of existence by spending their money elsewhere. This would shut us down more quickly than any government regulator possibly could. In 2012, we all saw the iron fist of consumer regulation fall squarely on Rush Limbaugh's radio show. Within hours of Limbaugh accusing Georgetown student Sandra Fluke of being a woman of questionable character, nine advertisers dropped Limbaugh's show. The advertisers had done nothing wrong, but they feared consumers' wrath so much that they refused to be associated with someone they believed their consumers would see as misogynistic.


That's the power of regulation by consumers. It is stronger than government regulation and, more importantly, it targets the right things for the right reasons. Consumer regulation is controlled by people who are directly affected making choices for themselves. Government regulations, on the other hand, target the preferences of policymakers and special interests. That leaves us with hundreds of thousands of rules that raise costs for businesses and consumers and often provide little benefit in return. And as my wife and I and countless would-have-been entrepreneurs discovered, government regulation is often the reason we have fewer jobs than we need.

First Lady Honors Military Moms

First Lady Michelle Obama hosted a belated Mother's Day celebration Monday at The White House to honor mothers in the military. (May 12)

AP





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Antony Davies is a scholar at the Mercatus Center at George Mason University and an associate professor of economics at Duquesne University.