

## *The Future of Business Regulation*

MURRAY L. WEIDENBAUM, who is Director of the Center for the Study of American Business at Washington University in St. Louis, doesn't go so far as to say that government intervention in business is unnecessary. His message, in a horrifying little book, *The Future of Business Regulation* (Amacom, a Division of American Management Associations, 135 W. 50th St., New York, N.Y. 10020, 183 pp., \$12.95), is simply that we can get too much of a good thing.

This is a subtle study of the law of diminishing returns—indeed, the law of negative returns—as it applies to those well-meaning people in Washington and fifty state capitals who seek to save us from ourselves. Nobody in his right mind wants to die in an industrial accident, nobody wants to get cancer from the circumambient air or strangle on carbon monoxide, and nobody since the legendary King Mithridates has relished poison in

his food. But when the costs of regulation deprive every family of four of \$2,000 a year, which is the Weidenbaum claim, most people would be happy to save the money and to trust their own common sense to minimize the risks they must encounter in their daily living.

Despite his prodigious feats of cost-benefit analysis and quantification, Mr. Weidenbaum doesn't set any minimal standards for regulation. He deals in trajectories. In fiscal 1974 the budget to run the various federal regulatory bureaus was \$2.2 billion. In fiscal 1979 this had jumped 115 per cent to \$4.8 billion. There was, of course, the general inflation, but, as Mr. Weidenbaum observes in his deadpan manner, "there are few parts of the private sector that have recorded such gains in the same five-year period." Regulation, he adds, has "become a major growth area of the American economy."

The 115 per cent jump in federal

regulatory costs in five years was largely due to the passage of twenty-five new Congressional acts and amendments to older acts. One wonders just who has had his well-being improved to any considerable extent by any of this Congressional solicitude. Do we have any more energy because of the Energy Policy and Conservation Act? Weren't toxic substances under firm control before 1974? Couldn't the separate states be trusted to handle surface mining control or fair market practices in transactions between oil companies and their dealers? Why did the minimum wage have to be raised in the very five-year period that had seen such an increase in black teen-age unemployment? And why should Washington be concerned about levying fines for "business payments abroad," meaning money spent on meeting the customs of countries whose sense of morality differs from our own?

### **A Lower Standard of Living**

In short, what do we get out of it all? We get a lowered standard of living, for one thing. Innovation in pharmaceuticals passes to other countries. Research and development money flows into defensive channels. Says the head of the General Motors Research Laboratory, "we've diverted a large share of our resources—sometimes up to half—into meeting government regula-

tions instead of developing better materials, better manufacturing techniques, and better products. . . . It's a terrible way to waste your research dollars."

The Dow Chemical Company, in 1976, figured that its expenses in complying with federal regulations came to \$186 million, a twenty-seven per cent jump from the 1975 total. A little more than half of the compliance money could be justified as necessary for the safety and protection of workers, customers and the general public. But the rest was either duplicative or simply "beyond good scientific manufacturing, business, or personnel practices," which is a nice way of describing stupidity.

Beyond the costs of compliance Dow has a story to tell about the costs to the community in expansion that is forgone. Dow had plans for a \$300 million petrochemical complex in California to meet West Coast demands for the company's goods and services. After spending \$4 million "for an environmentally sound project," the company decided it couldn't afford to waste any more money threading through "the regulatory red tape maze."

It's the same sort of story in copper. According to an Arthur D. Little company study, new pollution control regulations will add from twenty-three to thirty-nine per cent to copper prices, and cut smelter production around twenty-five to

thirty-three per cent. Copper imports will jump by eight per cent. The air will be cleaner, of course, but it will be cleaner mostly in areas that are quite capable of absorbing pollution without damage to individuals.

### **Environmental Problems**

In a lot of instances of our concern for environmental perfection, regulation merely serves to shift the nature of pollution. In compliance with the law, the Pennsylvania Power Company added scrubbers to its new 825-megawatt complex. The scrubbers take the pollutants out of the coal, all right, but the by-product is 18,000 tons of sludge a day. To contain the sludge, the company has had to build a 350-foot-high dam, "the largest earth and rock embankment east of the Mississippi River." And the lake behind the dam, a lake of gook, already covers 900 acres of once picturesque countryside.

When the Labor Department proposed some new noise standards in steel mills, the steel company accountants sharpened their pencils. They figured that the cost of establishing controls that would satisfy OSHA inspectors would come to \$1.2 million for each affected steelworker. For a mere \$42 per employee, the companies could provide ear protectors (\$10), noise monitoring (\$12) and audiometric testing

(\$20). Some of the money saved could go for higher wages, some of it could go into needed capital formation to make more steel jobs for more people wearing ear protectors.

### **Alternatives**

Mr. Weidenbaum would like to see Congress require economic impact statements before new regulatory bureaus are created and new laws passed. He would like to see the federal government imitate the state of Colorado in adopting so-called sunset laws that would force periodic reviews of the functions and the budgetary demands of agencies. Pollution taxes might be adopted, and fees might be charged for discharging effluents. This would force industries to do their own pollution monitoring. It would not only contribute to a healthier environment, it would also lighten the bureaucratic payroll in Washington.

What is needed most of all is a return to a little common sense. Mr. Weidenbaum paints an amusing picture of a man going to the bathroom in the morning and mildly losing his temper trying to open a bottle of aspirin which has the child-proof cap required by the Consumer Product Safety Commission. Personally I doubt that this would happen more than once—the alternative, which is to throw the child-proof cap into the wastebasket, is all too easy. It takes less effort to stow the aspirin bottle

on a top shelf out of a child's reach than it does to put the cap back on.

What we need is a Congress that will stop treating people like idiots. But if idiots continue to elect Congressmen, what can we do? ☸

---

### AMERICAN ETHNIC GROUPS

edited by Thomas Sowell

(The Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037)

249 pages ■ \$7.50

---

*Reviewed by Allan C. Brownfeld*

WHY have some racial, religious and ethnic groups advanced rapidly in the American society while others have progressed economically and educationally more slowly? Are some groups inherently superior, or is there something in the background of each which may account for both successes and failures?

This study is the product of research conducted at The Urban Institute from 1972 to 1975 under the direction of Thomas Sowell. Dr. Sowell is a widely respected black economist and the author of a number of important books, including *Race and Economics*, a landmark study of the impact of race upon economic advancement in the American society. He is an advocate of free enterprise and believes that through the working of the market

blacks will progress as have the various immigrant groups which preceded them to urban America.

Of the dozen or so groups that were examined, six were selected for special emphasis: those with black, Chinese, Japanese, Irish, Italian or Jewish background. These groups, writes Dr. Sowell, "are all minorities, they share many aspects of the immigrant experience, although only blacks suffered the burden of slavery; and all have faced exceptional barriers and experienced frustration in achieving economic and social mobility. One of the chief structural concepts implicit in this study is that the evolution of minority immigrant groups proceeds in parallel continua, in the course of which each group experiences similar developments, although not necessarily at the same time, with the same intensity, or in exactly the same way."

In an essay concerning black Americans, Sowell discusses three separate and distinct categories: (1) Those "free persons of color" who were emancipated before the end of the Civil War and in 1830 constituted 14 per cent of the American Negro population; (2) The largest component of the American Negro population, those blacks emancipated after the Civil War and their descendants; and (3) Black immigrants, primarily from other parts of the Western Hemisphere, and espe-