

Free Enterprise

“Ten Thousand Regulations”

By Dr. Luke Pittaway

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“If you have ten thousand regulations you destroy all respect for the law” (Winston Churchill). Having just completed, or should I say having had a tax accountant complete, my first ever US tax return this statement by Churchill came oddly to my mind. I have to confess and to my surprise the US tax system is far crazier and more complex than the UK one, which seems somewhat ironic given that you originally ‘rebelled’ to avoid tax (okay may be you wanted representation to). Filling in my tax return made me begin to consider the role of regulation in entrepreneurship; especially now that we have moved away from the Regan/Thatcher inspired de-regulation era. As a ‘Professor of Free Enterprise’ and a British citizen, a country which is far more socialist than this country, this is actually a challenging question: where do I stand on the role of government regulation in entrepreneurship? Do I like the idea of ‘no regulation’ or ‘low regulation’ or will my British background lead me to accept ‘greater regulation’?



The truth is the ‘de-regulation versus regulation’ argument has always been a false debate. It is not whether we should regulate or not that matters; it is whether the regulations we have or want to introduce meet the needs of our society. For me it is whether particular regulations help or hinder entrepreneurial activity or whether regulations help or hurt small businesses. ‘Better’ regulation is really the only game in town and of course the problem is that everybody disagrees about what ‘better’ is. Some areas of regulation truly help entrepreneurs. For example, the US has probably the strictest intellectual property laws in the World and in contrast China is de-regulated. Strict rules on intellectual property are supportive because they allow entrepreneurs and investors to protect new innovations, invest in them and bring them to society. In contrast lax regulation here damages the potential for new products to get into the market because the investment is not warranted if the commercial potential is damaged by copycats. Highly regulated competition policy is also supportive of entrepreneurship.

Aggressive actions to prevent large monopoly style conglomerates dominating markets (AIG anybody?) is sometimes needed to allow 'niches' for more innovative companies to enter and improve on what is currently provided (and of course market domination can lead to exploitation, arrogance and mismanagement). Likewise ask any food company using peanut butter in their products whether the strong application of FDA rules would be a good thing or not. The answer is likely to be yes – because it protects the majority of well run small businesses from the fallout when some less well run businesses do something that damages the entire industry.

Inevitably, there are also bad regulations. We know for example that the 'compliance cost' of regulation hits small firms harder than other businesses and, therefore, keeping regulations simple is good for entrepreneurial activity (and where current tax regulation does a poor job). Low company taxation is also usually associated with higher rates of entrepreneurial activity – but it would be no good having these taxes so low that a society could not afford appropriate infrastructure because all small businesses need roads.

So how is the new administration doing on regulation and what does it need to do? The answer is fairly mixed. Some existing regulation needs to be applied much more rigorously with the best examples being rules governed by the FDA and competition policy. Some systems of regulation need a major overhaul, for example, the complexity of the tax system for small firms, but there is yet to be any sign that this will happen. It is, however, encouraging that the administration is willing to face up to the problems of the health care system and this may lead to positive outcomes for small firms. But clearly at this point more focus needs to be given to the role and value that small businesses and entrepreneurship might have in a recovery. The recent announcements expanding SBA loan criteria may be positive but these are currently insufficient to have a major impact on entrepreneurial activity. It would have been better to use the money to establish publically backed Regional Venture Capital Funds (RVCFs) across the US that invest public money for public return in the well known equity gap where new entrepreneurial start-ups find it difficult to raise cash (\$500,000 - \$1m). Such funds invest in equity and build on themselves as businesses become successful and are used already in other developed nations. It would also have been better to establish a network of 'micro-credit' agencies investing in graduate led ventures from our universities (\$10,000-\$50,000) or indeed allowing student loan waivers for graduates who want to be entrepreneurs. In answer and really agreement with Churchill then – give us ten thousand regulations if you must but make them simple and useful.