

# Regulation & De-regulation: An Inevitable Cycle in American Economy

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## ABSTRACT

*Although the role of American government periodically fluctuates, a pattern exists in terms of both default and expected functions of the government – from the past to the present and probably into the future. This paper both discusses the influences of the government on the economy in the past and the present and attempts to project such influences in the future. Specifically, based on the historical evidences and current happenings, this paper postulates that governmental regulation and deregulation form an inevitable cycle in American economy.*

## INTRODUCTION

American government plays different roles from time to time, but a commonality is present in terms of what role of the government should be and what is expected from the people. Such a commonality also appears to be consistent to some extent from the past to the present and very likely into the future. Based on the historical evidences and current happenings, this paper postulates that governmental regulation and deregulation form an inevitable cycle in American economy. When the economy prospers, most people seek governmental deregulations to stimulate the economy by opening more opportunities for people to enter the business. On the other hand, when conflicts or hardships surface, most people realize they need regulations back. To derive such a postulation above, this paper discusses the present and the past as well as attempts to project the future of the American economy. It is necessary to note that this paper is written in the fall of 2008 (e.g. prior to this current administration); nonetheless, the analysis herein appears to be reasonably valid so far especially considering the way the Obama administration is proceeding.

## ANALYSIS AND DISCUSSION

### *The Past*

Perhaps the statement “no doctrinaire view prevailed as to the proper role of government in economic life” (Hays 1957, p 17) best captures the extent to which Americans assume the participation of the government in the economy. During the industrialism era, politics and government were considered instrumental to the prosperity of the economy. The key assumption during such an era is that government should support the economy at all costs and all levels. Moreover, the government was demanded to stand by to provide assistance when needed. In 1862, the federal government provided the first of a number of land grants to encourage

construction of transcontinental railroads. Agricultural research was another area in which the government was the main supporter. The government provided land grants to the states as capital funds for agricultural and mechanical colleges in the Morrill Act (1862) and began a program of annual financial aid to these institutions in the second Morrill Act (1890). Clearly, without the government's financial thrusts, industries such as railroad construction and agricultural research would have probably not progressed as they did. During the same period, business people increasingly demanded more financial support as well as regulations from the government in order to protect their business from other adverse effects of industrialism. However, people who had political power counteracted such demands. This conflict of interests required political parties and business people to adjust their behaviors.

Governmental regulations were considered a political instrument in this era. People who were reluctant to or unable to adapt their life to the industrialism hold the notion that business corporations created monopoly; as a result, those people demanded that the government destroy the monopoly through regulations. Those people believed that once monopoly was destroyed, there would be more business opportunities for regular people. However, not everyone was content with governmental regulations, and it was not easy to pass a regulation. Politicians and businessmen were closely involved through financial links. Business people had influences on how the government regulated their corporations and the industry. If the bills were hostile to their businesses, then they would lobby to prevent them from enactment. De-regulations were thus supported by business people in some levels. Despite the fact that the big corporations were a part of the blame, those people who had a hard time adjusting themselves to the new industrialism era were also a part of this 'mess'. After all, if there were none of the big corporations, business would have not come to this point. Thus, it was fair to say that people in this era tried to not only control big corporations but also to help themselves cope with the impact of the industrialism.

One interesting view necessary to mention was the belief of the Wilson administration: "the primary role of government was to destroy roadblocks to opportunity, not to provide positive services for the American people" (Hays 1957, p 150). Wilson passed major legislation such as the Underwood Tariff, the Federal Reserve Act, and the Clayton Antitrust Act, but turned down farm-mortgage credit system and child labor legislation. However, Wilson later changed his decision due to political motivation to win the election in 1916, not necessarily changing his belief, to pass a farm-mortgage credit act and the Keating-Owen Child Labor Act. Obviously, governmental regulations were definitely considered instrumental to many people in this era. Specifically, the discontented ordinary people attempted to seek the regulations, while business corporate people were against regulations and might even seek deregulations in some cases.

Then, the American financial system collapsed in 1929. Due to the overconfidence in the prosperity of the free market and financial system, the economy collapsed. The collapse indicated the end of the unusual influences of the bankers and big corporations on the economy. It undermined public faith in the basic philosophy of American business (Cochran, p 98). The philosophy was based on "a self-regulating capitalist economy based on natural economic laws" (Cochran, p 98). To put in simpler terms, people who worked hard would be financially rewarded. Perhaps, 'American dream' was the words to many people. The collapse significantly

pointed out to the need of new arrangement of the financial systems. Self-regulating economy alone apparently could not sustain itself.

During the nineteenth century, the government more heavily regulated businesses such as railroads, foods, and drugs. Soon afterward, airplanes, electricity, and automobile came under federal regulations and assistances. For the sake of the argument discussed, the American economy was healed and raised to the World power later.

### ***The Present***

During the present time, the role of the government is played through regulations but with significantly much less magnitude, because deregulations have been preferred as to stimulate the prosperity of the economy. With deregulations, American business once again has held the value of free market and self-regulating economy.

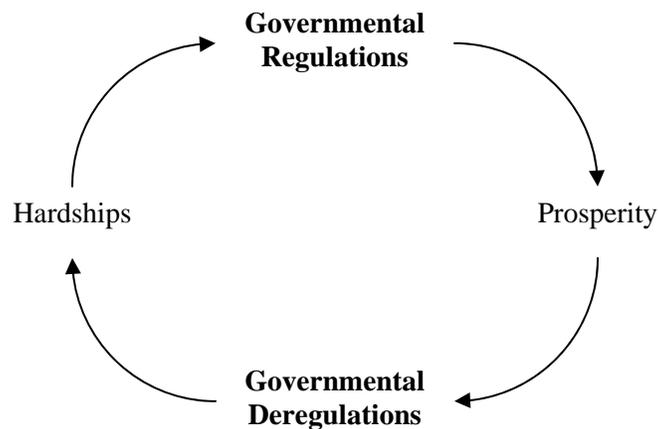
Until now, regulation makes its come-back (Mandel 2008). Mandel (2008) discussed that with the economy crisis happening in the current time, the 30 years of deregulations have come to a sudden end on September 16, 2008. Two weeks before that, the federal government took over few largest of the financial mortgage corporations (i.e. Fannie Mae and Freddie Mac). Mandel pointed out that suddenly American financial system cannot survive and needs the government's help once again. Back to the time when Jimmy Carter was the president, his enactment of the Airline Deregulation Act of 1978 started to push the notion of deregulation to other sectors such as telecommunication and finance. It was held that less regulations yields more economic growth. Yet again, with the current status of the economy such as weak financial performance, poor controlling system of food and drug sector (e.g. contaminated vegetable and salmonella outbreak), all signals point to the same pattern: regulations are needed at the moment. Both next president candidates (as this paper is written in the fall of 2008), Senator John McCain and Barack Obama, are now advocating regulations as well. Inevitably, not everyone will agree with more regulations. Energy and transportation sectors are still advocating deregulations by claiming that in order to improve infrastructure, privatization is still necessary. However, many agree that the direction of the regulations is set, and the concern is now the magnitude.

At this point, it is also important to discuss how the economy is from ordinary people's perspectives. It confirms that when people are scared and in hardship conditions, they seek the government's regulations and assistances – just like in the nineteenth century. The history does not necessarily repeat itself, but it reflects how the American economy may heal itself – just like it collapsed in the past. In nowadays that the economy is uncertain, not only business people are nervous, but ordinary people are scared. The government suddenly looks attractive once again. Consider the mess in the mortgage sector, people could loss their home if their banks were to collapse (Linn 2008). Consider the unusually high price of gas and food nowadays, people have to cut their spending budgets and be cautious how they spend their money (Linn 2008). With this status of the economy, inflation is definitely yet to follow. People have to cut more spending, because the income does not increase along with the food and gas's prices (Schoen 2008).

Of course, this discussion is absolutely no where near the end of the current condition of the economy. Recently, more major financial institutions signal that more failures are yet to follow

such as the bankruptcy of Lehman Brothers, the sellout of AIG giant insurance company, and the sellout of Washington Mutual Bank. However, as of current time, the government has issued the bailout plan to regain confidence in the financial sector. The bailout plan is supposed to takeover worthless mortgage and other bad debt from many financial institutions (The Associated Press 2008). It works. The President Bush's argument to help the financial sector through regulation does not appear to be voted against as much as his early policy such as wars (Abramowitz and Eggen 2008). Despite the fact that it is too soon to say whether the bailout plan may help, the stocks are back to be up again after being down for many days during the news of financial sector's crisis (Market Dispatches, September 2008). This may read that at least at the moment people are feeling lukewarm on the current status of the economy, but they see the government is stepping in to prevent total calamity.

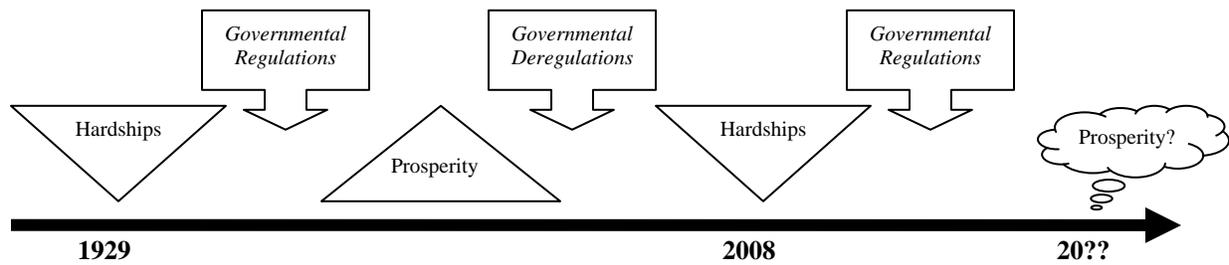
In sum, from the past to present, the general trend emerges on how the government plays a role in the economy. Deregulations are preferred when the economy prospers, but regulations are needed when people are scared and face hardships. If this view is extrapolated to some extent, it may also be expected that a complete circle of regulations and deregulations can be formed. Specifically, after a call for regulations due to hardships in the economy, for a period of time the economy is expected to improve and hopefully prosper, thus leading to a call for deregulations to bring about business opportunities. Yet, again too much financial freedom in the capitalism-based society will lead to chaos, failures, and hardships, thus producing a call for regulations once again. It also has to be noted that not everyone will be content but such a cyclic pattern seems unavoidable. The conflicts will require the discontented people to adjust their behaviors to some extent. Figure 1 depicts the circle of governmental regulations and deregulations.



**Figure 1.** An Inevitable Cycle of American Economy

### ***The “Future”***

It would be naïve to say that anyone could predict how the economy will be or even how the bailout plan will solve the crisis. However, it is fair to project some overall outcomes based on the history and the current status of the economy. Figure 2 depicts the overall timeline of the past, the present, and probably the future.



**Figure 2.** A Timeline of American Economy

As this current financial crisis, i.e. 2008, was not the first time in the American business history as it happened in 1929, in a way it is fair to say this crisis is not extremely strange to manage. Moreover, the key culprits of this type of financial crisis appear to be similar: people are overconfident in free market and self-regulating economy. Those major financial corporations have been greedy and operating on their free will. However, with the assistance and regulations from the government, the economy was healed in the past, and thus the current economy is believed to be able to recover as well. It is not to say that it will be easy since other conditions in current economy are different from those in the past to some extent, but it should provide some confidence that the American economy will regain its strength. Specifically, regulations will provide a firm basis on how the economy should process cautiously, and then when the economy prospers, deregulations will follow to make sure business opportunities are available to everyone once again.

However, a more challenging task is to project the future of the American economy in the next 30 years. Based on the history of the American business, it is likely that the government will exert the similar influences through regulations and deregulations. Based on the Development Concepts and Doctrine Centre (DCDC), a Directorate General within the UK's Ministry of Defence (MOD)'s Global Strategic Trends Programme 2007-2036 (third edition) document, it is predicted (p 15) that the US's economic and military power will require the US itself to adjust its actions toward the rising economic challenge of Asia dominated by China and India, more competitive commodity and energy access, and still dealing with debt and social pressures in the society. Anti-Americanism will continue to rise, and ultimately other world rising powers will emerge to compete. Specifically, the US is likely to maintain its international leadership until at least 2020, after which countries such as China, Russia, India, Brazil, and Indonesia will challenge its status (p 44). In sum, it is expected that the current economy will improve due to the government's regulations and assistances. However, it is questionable whether the US will be able to sustain its leadership in the world, given other rising powers from many regions in the world.

## CONCLUSION

This paper discusses how the government provides assistance to the economy through regulations and deregulations in the past, how regulations are back in the current status of the economy, and projects that in the future, in order for the economy to improve and sustain its competitiveness, both regulations and deregulations will be required again and again. However,

the more challenging question is: although the economy is able to improve, how the US can maintain its leadership in the world given other rising powers all around the world. This paper discusses all the above based on limited evidences available throughout the history, the current news, and the DCDC document for future prediction. It would be naïve to say that the future can be predicted with certainty, but with the available evidences, a general projection is promising and should provoke some thoughts on the topic.

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