MERCATUS CENTER
George Mason University

POLICY BRIEF

Regulatory Reform in Texas: An Opportunity for Greater Economic Growth

Patrick A. McLaughlin

January 2025

Texas is often considered a symbol of economic freedom, where business-friendly policies supposedly reign supreme. The reality, however, is more complex. Despite its reputation for fostering a probusiness environment, Texas is the fifth-most-regulated state in the nation, according to the most recent State RegData rankings.[1] Regulatory accumulation, which is a symptom of a regulatory process that causes more and more new regulations to be piled on top of existing ones, has led to Texas amassing 274,469 regulatory restrictions, which are words and phrases such as "shall," "must," and "may not" that occur in the text of regulations and typically create prohibitions or obligations. The presence of nearly 300,000 restrictions has created a significant burden on businesses and households alike, especially small- and medium-sized enterprises (SMEs) and lower-income households.

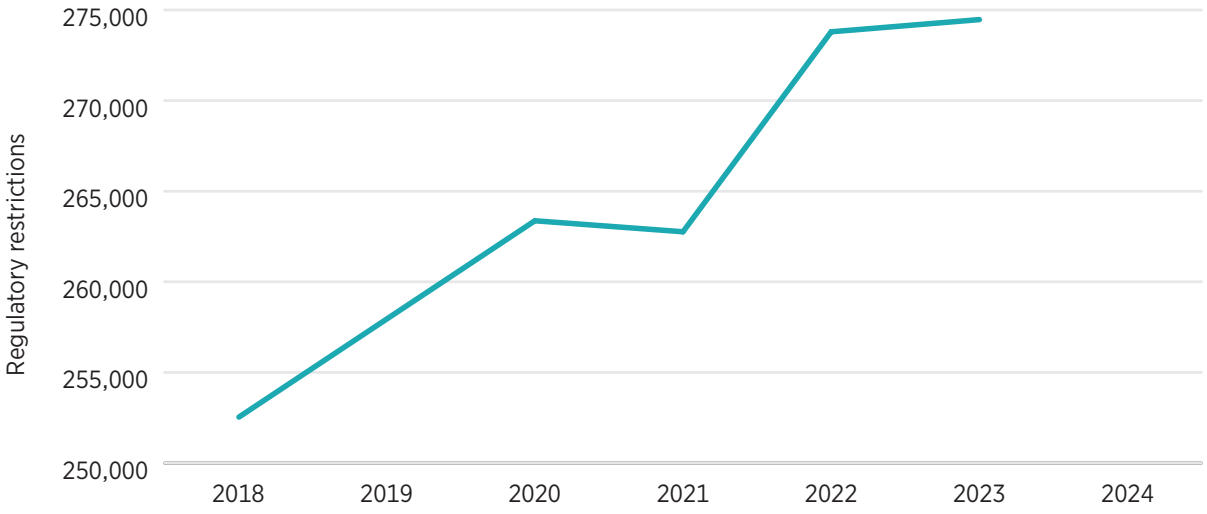
But the vast size of Texas's regulatory code also represents a chance for policymakers to boost the state's economy. If Texas were to reduce its regulatory burden by 25 percent over the next three years, it could unlock significant economic potential. By drawing on the experiences of other states, such as Idaho and Virginia, as well as the Canadian province of British Columbia, Texas has an opportunity to spur economic growth, create jobs, and maintain its competitive edge. This brief explores how Texas might realize such regulatory reform and experience the potential gains from a targeted reduction of 10, 20, 30, or 40 percent in regulatory red tape.

I find that economic growth would increase substantially in any of these red-tape reduction scenarios. The estimated boost to growth ranges from 0.16 percentage points, or pp, (low effect, 10 percent reduction) to 1.56 pp (high effect, 40 percent reduction). That translates to a state economy that would be $52.460 billion to $542.148 billion larger by year 2037.

How Texas Compares to Other States

State RegData includes annual data for nearly all 50 states from 2020 to 2023 and for some states from preceding years.[2] The project involves collecting all regulations in effect in a given state at a

FIGURE 1. Regulatory accumulation in Texas, 2018–23



Source: State RegData.

specific point in time and using machine learning and other sophisticated algorithms to quantify specific dimensions of those regulations. Primary among the metrics that State RegData produces is the popular *regulatory restrictions* metric. *Regulatory restrictions* is used in all the RegData datasets to serve as a proxy for the prohibitions (e.g., you may not do this) and obligations (e.g., you must do that) contained in regulatory text.

Figure 1 shows the number of regulatory restrictions on the books in Texas for all years of data available from the State RegData (2018, 2020–23). Over those years, regulatory restrictions in Texas have grown by 8.7 percent, from 252,534 to 274,469.[3]

By way of comparison, that level of regulation has consistently ranked Texas as the fifth most-regulated state in the nation, after California, New York, Illinois, and New Jersey. For further context, Tennessee, the median state in 2023, had 121,620 regulatory restrictions on its books, or less than half of what Texas had. The least regulated state, Idaho, had 31,497 restrictions in 2023. By our measures, Texas is about 8.7 times more regulated than Idaho.

The Consequences of Regulatory Accumulation

Regulatory accumulation refers to the steady and perhaps unintentional growth of regulations over time. Without a systematic approach to reviewing and removing outdated or redundant regulations, the steady buildup of government interventions eventually shows up in economic outcomes ranging from business activities such as investment decisions, startup rates, and productivity growth to household outcomes such as household income and consumer expenditure.

Business effects

The downsides of regulatory accumulation are well documented. A landmark study published in 2020 showed that regulatory accumulation slows economic growth by nearly one percentage point annually.[4] Specifically, the study found that the buildup of more and more federal regulations over time distorted business investment decisions, which, in the long run, are the drivers of innovation and productivity growth. Coffey et al. also found that the buildup of federal regulations has created a considerable drag on the economy, amounting to an average reduction of 0.8 percentage point in the annual growth rate of the US GDP. This seemingly small annual reduction has large implications. The slower economic growth associated with regulatory accumulation resulted in an economy that was $4 trillion smaller in 2012 than it could have been without such regulatory accumulation. That amount equaled about a quarter of the US economy in 2012, and if it were a nation's GDP, it would have been the fourth largest in the world at that time.[5] This translates to a loss in real income of approximately $13,000 for every American.[6]

A similar study estimated the effect to be even larger, finding that regulatory accumulation slowed US economic growth by as much as 2 percentage points annually.[7] This sort of research shows that the total cost of regulations is greater than the sum of the projected compliance costs when each regulation is analyzed on its own. Forgone innovation, and the opportunity cost it implies, eventually makes compliance costs seem relatively trivial in comparison. Not coincidentally, research shows that regulatory accumulation disproportionately burdens small businesses—including the startups that are often the fountainheads of innovation—and that this burden grows at an increasing rate as regulation accumulates (i.e., the negative effect of each new regulation grows larger as the stock of regulation grows larger).[8]

There are other reasons that business leaders should be concerned about regulatory accumulation. Scholarship in the fields of psychology, economics, and organizational science suggests that people are more likely to make mistakes and are less motivated and able to comply when they are required to follow too many rules simultaneously.[9] For example, one study found that the growth in regulation in the nuclear power industry actually reduced safety.[10] New regulations only distracted workers from their most important duties. In such circumstances, it became harder for workers to focus on averting the greatest risks, as an increasing share of their attention was diverted to recalling all the rules they were supposed to follow.

Numerous other studies on safety regulations have reinforced these findings. Some 95 percent of Dutch railroad workers reported that they could not do their jobs if they followed all the rules. Similarly, British railroad workers admitted that more than half of all rule breaches were intentional, because they could not accomplish their jobs otherwise.[11] And workers in the Australian mining industry became less concerned with evaluating situations of actual safety and more concerned with avoiding sanctions.

The bottom line on regulations and workplace safety is that when too many regulations occupy their focus, workers can lose a sense of ownership of safety procedures, which has serious repercussions. Although their local knowledge allows workers to identify problems more easily than regulators, they become less motivated to find solutions. At best, workers focus on simply following the rules, even if they are not safety enhancing. At worst, they focus on how to break the rules without getting caught. Reducing the complexity of the regulatory system is a powerful way to improve compliance and generate better outcomes from regulations that serve a justified purpose.

Household effects

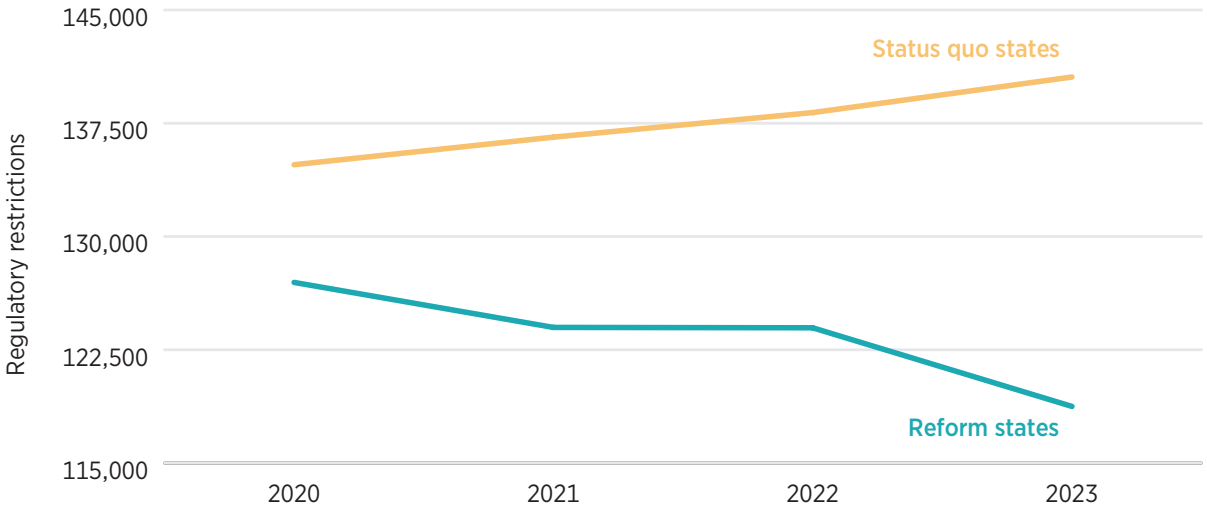
While regulation significantly affects business-related economic outcomes, it also directly impacts American households, especially households with lower incomes. By creating barriers or hurdles that limit the ability of new individuals or companies to enter a market, regulatory accumulation can raise prices (through reduced competition), slow wage growth, and diminish economic opportunities for low-income workers.

Regulation typically increases the production costs of goods, and these costs are passed on to the consumer in the form of higher prices. A study published in 2017 combined data from the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the RegData database to study the relationship between prices and consumer choices.[12] They found that a 10 percent increase in total regulation leads to a nearly 1 percent increase in consumer prices. Furthermore, they found that the effects of these price increases are regressive: The poorest income groups experience the highest proportional increases in the prices they pay. This is consistent with spending patterns broken down by income level. Low-income households tend to spend a greater portion of their incomes on necessities such as utilities, food, and healthcare; unfortunately, these goods also tend to be more regulated than other consumer and household goods. It is perhaps not surprising, then, that regulatory accumulation also has a positive statistical relationship with poverty rates; as regulation grows, poverty rates also tend to rise.[13] Regulatory accumulation can also contribute to income inequality as wage growth shifts from low-income workers to compliance-related workers such as managers, lawyers, and accountants.[14]

How to Reverse Regulatory Accumulation in Texas

The good news is that there are proven ways to reverse the problem. Considering evidence on the harms of regulatory accumulation, several states have implemented regulatory reform initiatives designed to identify and weed out red tape that had accumulated over the years. The movement was arguably inspired by the Canadian province, British Columbia, which in 2001 recognized a need to cut some of the regulatory red tape that had built up over years.[15] British Columbia's groundbreaking red-tape reduction initiative succeeded in reducing the quantity of regulations on its books by about 40 percent within three years.[16] Coffey and I found that the red-tape reduction caused the province's economic growth rate to increase by over one percentage point, converting

FIGURE 2. States without review process (Status Quo States) v. states with review process (Reform States)



Source: State RegData and author's calculations.

British Columbia from economic laggard to leader in just a few years.[17] And the new, higher growth rate was maintained for several years thereafter.

The states that have enacted successful regulatory reforms have primarily adopted two similar approaches: targeted red-tape reductions and regulatory budgets. The former—a targeted reduction—typically involves developing a quantitative measurement of accumulated regulation and then setting an explicit target for reduction, such as 25 percent or 30 percent relative to the initial baseline. The latter—regulatory budgeting—comes in a variety of forms, but it also typically requires first coming up with a quantitative metric of total regulatory burden and then tracking changes as new regulations are made or old regulations are modified or eliminated.

These approaches are effective, as the data in figure 2 show. Those states that do not have a robust process in place for reviewing old regulations (Status Quo States) tend to accumulate more and more regulations over time, whereas those states that have a proactive review process in place (Reform States) have reversed that process. For this comparison, Reform States include those that have reduced regulatory restrictions by at least five percent since the first year the state was included in State RegData and had made some sort of policy announcement related to the red-tape reduction efforts. The states that qualified are, in alphabetical order, Idaho, Kentucky, Missouri, Nebraska, Ohio, and Oklahoma. The remaining states are grouped into the nonreform category of Status Quo States.

Texas, despite nominal efforts at regulatory reform, belongs in the Status Quo category. Texas adopted a one-in, one-out regulatory policy in 2017.[18] This law requires that when a state agency

proposes new regulations that impose costs, the agency must repeal or amend an existing regulation to offset those costs. Texas's policy focuses on cost offsets rather than simply the number of rules. Under this approach, the monetized financial impact of new regulations must be at least offset by reducing costs elsewhere in the regulatory system.

While this approach has the feature of including a focus on the economic burden of regulations, the Texas policy also includes broad exemptions. For example, rules "necessary to protect the health, safety, and welfare of the residents" of Texas are exempted.[19] An even broader exemption is also included: Any rule that is "necessary to implement legislation" is exempted from the policy.[20] Since the latter exemption could arguably include all regulations, it is perhaps not surprising to see that regulatory accumulation has continued even after the policy was made into law in 2017.

It should be clear that the design of the regulatory process, with or without reforms, leads to more regulatory accumulation. Texas policymakers need to consider further reforms to the regulatory process, such as a targeted reduction of 25 percent or a one-in, one-out regulatory budget. Even better, from an economic growth perspective, would be to initiate a targeted reduction followed by a one-in, one-out regulatory budget once the target level has been achieved, which is what British Columbia did.

The state of Idaho offers an instructive example of successful regulatory reform in the United States. When the State RegData project began in 2016, Idaho was not the least regulated state in the nation. It required deliberate reform of the regulatory process, which has been a hallmark of Idaho Governor Brad Little's time in office. Over the past several years, Idaho has implemented a bold regulatory reform agenda, resulting in a reduction of its regulatory restriction count by more than 50 percent. With one of his first executive orders, Governor Little implemented a one-in, two-out regulatory policy, requiring that for every new regulatory restriction introduced, two must be eliminated. This approach eventually evolved into a form of regulatory sunsetting called "zero-based regulation," modeled after zero-based budgeting. Under zero-based budgeting, all state agencies must review all their regulations once every five years. If an agency wants to keep a rule on the books, the burden of proof is on the agency to show that the regulation is necessary and that the least restrictive alternative has been chosen.[21] The results helped Idaho reduce its regulatory complexity and foster a more dynamic business environment, especially for small- and medium-size enterprises. And, not coincidentally, Idaho's economic growth outpaced national averages, and the state became a magnet for investment and entrepreneurship.

Economic Gains from Cutting Red Tape

A systematic reduction of regulatory burdens in Texas by 25 percent could result in significant economic gains. In our study of British Columbia's regulatory reform, Coffey and I found that cutting red tape by 36 percent can boost GDP growth by roughly 1 percentage point annually. Given Texas's current GDP of approximately $2 trillion, this would translate into an additional $16 billion

to $20 billion annually. The effects would ripple throughout the economy, increasing household incomes, stimulating investment, and creating new jobs.

However, the benefits would not be limited to increased GDP growth. Reducing regulatory complexity also encourages innovation by freeing up resources that businesses can reinvest in new technologies, research, and development. Moreover, reducing regulatory burdens could foster more competition, allowing smaller firms to enter the market, compete effectively, and contribute to job creation. In the ongoing competition between states to create the best business environment, Texas can become even more appealing to businesses looking to escape the inhibitive tax and regulatory environments in other states.

Simulations of Texas's growth trajectory with regulatory reform

To better understand the potential impact of regulatory reform in Texas, I modeled four scenarios where Texas reduces its regulatory restriction count: 10 percent, 20 percent, 30 percent, and 40 percent reductions, all accomplished over the next three years. Each scenario incorporates different rates of additional annual growth owing to the reduction in regulatory red tape. The additional growth gained from each scenario is shown in table 1 and described below.

The various scenarios are a combination of the effects of red-tape reduction, and the outcomes of any regulatory reform—which is to say, the percentage of regulations that are cut under a

TABLE 1. Growth scenarios for Texas following red-tape reduction

Scenario	Baseline Growth Rate	Red-Tape Reduction Effect	Source	10% Reduction	20% Reduction	30% Reduction	40% Reduction
Baseline	3.50%	N/A	BEA	N/A	N/A	N/A	N/A
Central	3.50%	1.0 pp for 36% red-tape reduction	Coffey and McLaughlin (2021)	3.78%	4.06%	4.33%	4.61%
Low	3.50%	0.8 pp for 50% red-tape reduction	Coffey et al. (2020)	3.66%	3.82%	3.98%	4.14%
High	3.50%	1.4 pp for 36% red-tape reduction	Coffey and McLaughlin (2021)	3.89%	4.28%	4.67%	5.06%

Source: For column 2 see Bureau of Economic Analysis, Gross Domestic Product by State (database), accessed November 15, 2024, https://www.bea.gov/data/gdp/gdp-state. The sources for column 3 are listed in column 4 and are Bentley Coffey, Patrick A. McLaughlin, and Pietro Peretto, "The Cumulative Cost of Regulations," *Review of Economic Dynamics* 38 (2020) and Bentley Coffey and Patrick A. McLaughlin, "Regulation and Economic Growth: Evidence from British Columbia's Experiment in Regulatory Budgeting" (Mercatus Working Paper, Mercatus Center at George Mason University, May 2021). Columns 5, 6, 7, and 8 are based on the author's calculations.

Note: pp refers to percentage points.

hypothetical regulatory reform in Texas. The effects of the reduction are based on the research of Bentley Coffey and myself.[22] Coffey and I estimate the effect of British Columbia's red-tape reduction. Their preferred estimate is 1.0 pp gained from a 36 percent reduction to regulations, and their high estimate is 1.4 pp gained from a 36 percent cut. Coffey et al. (2020) simulate the effect on the national economy if regulations were held constant at the level observed in 1980 instead of growing to the level observed in 2012.[23] The difference is about a 50 percent reduction in regulations, which corresponds in their simulation to a 0.8 pp increase in growth.

I use these estimates—1.4 pp, 1.0 pp, and 0.8 pp—to create projections of Texas's economy in future years under different regulatory reduction outcomes. As a starting point, I collected economic growth rate data from the Bureau of Economic Analysis.[24] Based on the average growth observed in Texas's economy over the past decade (2013 to 2023), I assume a 3.5 percent compound annual growth rate (CAGR) in real GDP. This rate reflects historical growth patterns, excluding distortions caused by short-term events such as the pandemic. All projections for future years' real GDP are therefore expressed in 2023 dollars, adjusted for inflation, to ensure consistency and comparability across time.

The regulatory reform outcomes I entertain are the following: no change to the regulatory process (baseline), a 10 percent reduction in total regulatory restrictions achieved at the end of three years, a 20 percent reduction after three years, a 30 percent reduction after three years, and a 40 percent reduction after three years. To calculate the effect of each of these reduction outcomes, I calculate the fraction of red-tape reduction achieved in the outcome being entertained relative to the reduction achieved in the relevant study and then multiply that fraction and the red-tape reduction boost for each scenario. For example, for the 30 percent reduction outcome, the central estimate, in which a 1.4 pp boost would be gained from a 36 percent red-tape reduction, the 1.4 pp growth boost is multiplied by (30/36), or 0.833, yielding a 1.4 x 0.833 = 1.167 pp increase in the growth rate. This is added to the baseline growth rate of 3.5 percent, yielding 4.67 percent growth in that scenario and red-tape reduction outcome.

Results

Clearly, any of these scenarios will increase the average growth rate in Texas. The boost to growth ranges from 0.16 pp (low effect, 10 percent reduction) to 1.56 pp (high effect, 40 percent reduction). But even for the low end of this range, the difference between the size of Texas's economy after 10 years under a reform scenario versus the baseline scenario is massive. This is best shown in figure 3, which shows simulations of Texas state GDP through 2037. These simulations assume that any red-tape reduction requires three years to be accomplished, after which the increase to the growth rate is realized and added to baseline GDP growth.

Again, the baseline scenario assumes a 3.5 percent growth rate. By year 2037, at 3.5 percent growth, Texas state GDP would equal $3.37 trillion. Using the central effect of a 1 pp increase for a 36

FIGURE 3. Simulations of Texas's state GDP after regulatory reform, central effect (1 pp increase)

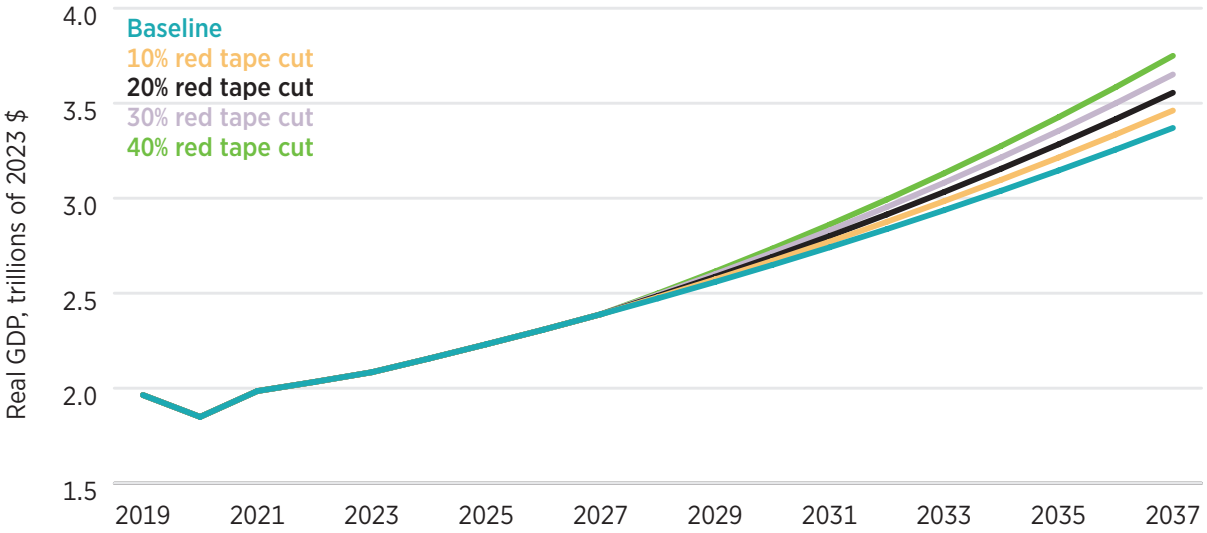


TABLE 2. Difference (in billions of 2023 dollars) between baseline economy size in 2037 and alternative economy post-regulatory reform

	10% Reduction	20% Reduction	30% Reduction	40% Reduction
Low	$52.5	$105.7	$159.6	$214.3
Central	$91.5	$185.3	$281.4	$379.8
High	$128.8	$262.0	$399.7	$542.1

percent red-tape reduction, even a meager 10 percent red-tape cut would make the economy $91.544 billion larger by the year 2037. A 40 percent reduction would yield an economy that is $379.760 billion larger by 2037. Table 2 shows the full range of estimates of the difference between the baseline estimate of the economy's size in 2037 and the alternative economy that would result from the regulatory reform outcome.

As table 2 shows, the high effect scenario with a 40 percent reduction would add over half a trillion dollars to the state's economy by the year 2037.

Conclusion

Texas faces a critical opportunity to harness its economic potential by reducing regulatory burdens. As demonstrated by the experiences of British Columbia, systematic regulatory reform not only increases GDP growth but also fosters innovation, creates jobs, and enhances competitiveness. By adopting a regulatory reduction target over the next three years, Texas can unlock billions of dollars in additional economic output and position itself as a leader in business innovation

and economic dynamism. The simulations presented here show that even modest cuts, such as 10 percent, could yield substantial benefits, while deeper reforms could transform Texas into an even greater hub for innovation, investment, and entrepreneurship.

About the Author

Patrick A. McLaughlin is the director of policy analytics and a senior research fellow at the Mercatus Center at George Mason University. His research focuses primarily on regulations and the regulatory process. McLaughlin created and leads Mercatus's pioneering QuantGov and RegData projects, which use machine learning and other data tools to quantify governance indicators found in government policy and in federal and state regulations.

McLaughlin has published more than 30 peer-reviewed articles in diverse areas of study, including regulatory economics, administrative law, industrial organization, and international trade. He is the author (with Oliver Sherouse) of *The Impact of Federal Regulation on the 50 States* (Mercatus Center at George Mason University, 2016). McLaughlin has given expert testimony before Congress and state legislatures, and his op-eds have been featured in *The Economist*, the *Wall Street Journal*, *Politico*, and *The Hill*. Before joining Mercatus, McLaughlin served as a senior economist at the Federal Railroad Administration in the US Department of Transportation. He holds a PhD in economics from Clemson University.

Notes

1. For the latest State RegData rankings see Dustin Chambers and Patrick A. McLaughlin, "Snapshots of State Regulations | 2024 Edition" (Mercatus Center at George Mason University, August 6, 2024).
2. State RegData datasets are available for download at https://www.quantgov.org/.
3. For more details on the state of regulation in Texas, see Dustin Chambers and Patrick A. McLaughlin, "Texas' Regulatory Landscape" (Snapshots of State Regulations, Mercatus Center at George Mason University, August 6, 2024).
4. Bentley Coffey, Patrick A. McLaughlin, and Pietro Peretto, "The Cumulative Cost of Regulations," *Review of Economic Dynamics* 38 (2020): 1–21.
5. Patrick A. McLaughlin, "What If the US Regulatory Burden Were Its Own Country?" (Mercatus Data Visualization, Mercatus Center at George Mason University, April 26, 2016).
6. Coffey et al., "The Cumulative Cost of Regulations."
7. John Dawson and John Seater, "Federal Regulation and Aggregate Economic Growth," *Journal of Economic Growth* 18 (2013): 131–77.
8. Dustin Chambers, Patrick A. McLaughlin, and Tyler Richards, "Regulation, Entrepreneurship, and Firm Size," *Journal of Regulatory Economics* 61 (2022): 108–34.
9. Patrick A. McLaughlin, "How Regulatory Overload Can Make Americans Less Safe" (Mercatus Policy Brief, Mercatus Center at George Mason University, November 2018).
10. Michael Lavérie and Roger Flandrin, "Relations Between the Safety Authority and the Nuclear Power Plant Operators," *Nuclear Engineering and Design* 127 (1991): 215–18.

11. McLaughlin, "How Regulatory Overload Can Make Americans Less Safe."

12. Dustin Chambers, Courtney A. Collins, and Alan Krause, "How Do Federal Regulations Affect Consumer Prices? An Analysis of the Regressive Effects of Regulation," *Public Choice* 180 (2017): 1–34.

13. Dustin Chambers, Patrick A. McLaughlin, and Laura Stanley, "Regulation and Poverty: An Empirical Examination of the Relationship Between the Incidence of Federal Regulation and the Occurrence of Poverty Across the US States," *Public Choice* 180, no. 1–2 (2019): 131–44.

14. James B. Bailey, Diana W. Thomas, and Joseph R. Anderson, "Regressive Effects of Regulation on Wages," *Public Choice* (2018): 1–13; Dustin Chambers, Patrick A. McLaughlin, and Laura Stanley, "Barriers to Prosperity: The Harmful Impact of Entry Regulations on Income Inequality," *Public Choice* 180, no. 1–2 (2019): 165–90; Sean Mulholland, "Stratification by Regulation: Are Bootleggers and Baptists Skill-Biased?" *Public Choice* (2018): 1–26; and Sanchari Choudhury, "The Causal Effect of Regulation on Income Inequality Across the US States," *European Journal of Political Economy* 80 (2023).

15. Laura Jones, "Cutting Red Tape in Canada: A Regulatory Reform Model for the United States?" (Mercatus Research, Mercatus Center at George Mason University, November 11, 2015).

16. Bentley Coffey and Patrick A. McLaughlin, "Regulation and Economic Growth: Evidence from British Columbia's Experiment in Regulatory Budgeting" (Mercatus Working Paper, Mercatus Center at George Mason University, May 2021).

17. Coffey and McLaughlin, "Regulation and Economic Growth."

18. TX Govt Code § 2001.0045 (2023).

19. TX Govt Code § 2001.0045(c)(6) (2023).

20. TX Govt Code § 2001.0045(c)(9) (2023).

21. For more details on Idaho's approach, as well as the more recent reforms implemented in the state of Virginia, see Alex Adams and Reeve Bull, "Regulatory Modernization That Works: Lessons from Idaho and Virginia" (Regulatory Transparency Project of the Federalist Society, May 10, 2024).

22. Coffey and McLaughlin, "Regulation and Economic Growth."

23. Coffey et al., "The Cumulative Cost of Regulations."

24. US Bureau of Economic Analysis, Gross Domestic Product by State (database), accessed November 15, 2024, https://www.bea.gov/data/gdp/gdp-state.