



REGULATING AWAY COMPETITION The Effect of Regulation on Entrepreneurship and Employment

Regulation may be particularly detrimental to economic prosperity to the extent that it deters entrepreneurship. If larger existing firms can overcome the costs of complying with regulations more easily than new, small firms, such smaller entrants may never start their businesses in the first place. In a new empirical study for the Mercatus Center at George Mason University, economists James Bailey and Diana Thomas show that more regulated industries experienced fewer new firm births and slower employment growth between 1998 and 2011, and that regulations inhibited employment growth primarily in small firms rather than large firms. These results call into question the value of new federal regulations, because increased regulation seems to contribute to the declining number of new businesses and to slowing job growth.

To read the study in its entirety and learn more about its authors, see [“Regulating Away Competition: The Effect of Regulation on Entrepreneurship and Employment.”](#)

KEY FINDINGS

Using novel data on the extent of US federal regulations for 215 industries (as classified by their North American Industrial Classification System codes) from the Mercatus Center’s [RegData database](#) and data on firm births and employment from the Statistics of US Businesses, the study confirms the hypothesis that regulation inhibits business growth and job creation while protecting larger, existing businesses:

- *Firm births.* A 10% increase in the intensity of regulation leads to a statistically significant 0.5% decrease in overall firm births. There is a statistically significant decrease among births of small firms but no statistically significant effect on births of large firms, confirming the hypothesis that incumbent firms benefit from regulation because it deters new entrants.
- *Firm deaths.* Regulation had no statistically significant effect on firm deaths. Regulation drives away new entrants, but does not put existing firms out of business. In fact, there is

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some evidence that firm deaths may decrease with increased regulation as businesses benefit from less competition.

- *New hires.* A 10% increase in regulation is associated with a statistically significant 0.9% decrease in hiring among all firms and a 0.5% decrease specifically among small firms.

CONCLUSION

Regulators need to understand that there is a tradeoff between any benefits of regulation and its negative effect on business creation and economic growth. Before promulgating new federal regulations, regulators must carefully consider their consequences and justify regulation in light of its likely negative impact on economic growth.