



## The Unintended Consequences of Federal Regulatory Accumulation

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Federal regulators often have good intentions when proposing new rules, such as increasing worker safety or protecting the environment. However, policymakers typically view each regulation on its own, paying little attention to the rapid buildup of rules—many of them outdated and ineffective—and how that regulatory accumulation hurts economic growth.

The continuous accumulation of rules over the last several decades has not only slowed economic growth but has also reduced employment opportunities and disproportionately harmed low-income households. Unless Congress and agencies address this growing backlog, it will continue to stifle innovation and entrepreneurship.

### BUILDUP OF RULES HARMS THE ECONOMY

According to the Mercatus Center's [RegData](#)—a tool that uses text analysis to quantify the federal regulations targeting each industry in the United States—total regulatory restrictions have increased nearly 20 percent since 1997 to more than 1 million. Multiple studies have quantified how the growth of rules slows economic growth:

- A [recent study](#) published in the *Journal of Economic Growth* found that between 1949 and 2005 the accumulation of federal regulations slowed US economic growth by an average of 2 percent per year. Had the amount of regulation remained at its 1949 level, 2011 gross domestic product (GDP) would have been about \$39 trillion—or three and a half times—higher, which translates into a loss of about \$129,300 for every person in the United States.
- A 2005 [World Bank study](#) found that a 10-percentage-point increase in a country's regulatory burdens slows the annual growth rate of GDP per capita by half a percentage point.<sup>1</sup> Based on this finding, an increase in regulatory burdens can translate to thousands of dollars in lost GDP per capita growth in less than a decade.
- Other economists [have estimated](#) that a heavily regulated economy grows two to three percent slower than a moderately regulated one.

### IMPROVING REGULATORY SYSTEMS SPURS ECONOMIC GROWTH

Conversely, large-scale efforts to reduce regulatory burdens can result in increased investment and economic growth.

- According to a [World Bank study](#), moving from the 25 percent most burdensome to the 25 percent least burdensome regulatory environment (as measured by the World Bank's Doing Business index) can increase a country's average annual GDP per capita growth by 2.3 percentage points.

1. Calculated by using the method of estimation set forth by Table 3B, setting the governance index at the world median (0.46), and setting overall regulation to 0.1 to represent a 10-percentage-point increase along the study's index.

- When the United States and the United Kingdom reduced regulation in the utility, communications, and transportation industries in the late 1970s and early 1980s, investment in those sectors as a percentage of capital stock more than doubled—from 3.7 percent in 1975 to 8.15 percent in 1998. During that same time, investment rates decreased by 5 percent in continental European countries that did not implement large-scale deregulatory reforms, including Italy, France, and Germany.

## HOW REGULATIONS HURT THE LABOR MARKET

The rapid growth in the number of federal rules has likely hindered the struggling labor market. An increasing regulatory burden can harm workers in various ways. As former Bureau of Labor Statistics Commissioner and Mercatus Center senior research fellow Keith Hall explains in [a recent study](#):

- Regulation adds to costs, increasing prices for regulated goods and services and reducing the final amount bought and sold. As production declines, so does the demand for workers engaged in production.
- This shrinkage in the size of the market can decrease employment not only in these regulated industries but also in industries downstream that use the now more expensive goods and services.
- More regulation also leads to a shift of workers from production to regulatory compliance jobs, which reduces overall economic efficiency.
- Even if displaced workers eventually find new employment, they often face permanent losses in lifetime earnings, which can be [as high as almost three years of the previous annual income](#). This is largely due to skill mismatches between the jobs lost and the new jobs created in the economy.

## REGULATIONS CAN BE REGRESSIVE

Proponents of federal regulations often use the need to protect society as a whole, particularly lower-income individuals, to justify regulation despite potential economic costs. However, numerous regulations disproportionately *burden* poor Americans, who are least able to afford them.

- [Mercatus Center research](#) finds that federal regulations often address small risks impacting a targeted group but spread costs uniformly. As a result, these rules cost up to six to eight times more as a share of income for low-income households than for high-income households.
- In 2005 the Food and Drug Administration banned the use of chlorofluorocarbons as propellants in medical inhalers, such as asthma inhalers, for environmental reasons. Shortly thereafter, [the price of asthma inhalers tripled](#). As Mercatus Center senior research fellow Patrick McLaughlin explained in a 2013 [Senate testimony](#), this higher price disproportionately harms lower-income persons and may lead to the choice not to buy an inhaler or leave an asthma attack untreated.
- The minimum wage acts as a regulation that prohibits the exchange of a service below a certain price. This also harms workers with the least skills and experience. A recent [Mercatus Center study](#) found that a proposed 13.8 percent increase in New Jersey’s minimum wage (from \$7.25 to \$8.25 per hour), which voters passed into law, would not directly affect the college-educated and presumably wealthier workers. However, the wage hike could increase unemployment by as much as two percentage points for young workers without high school diplomas.

## SOLUTIONS TO REDUCE THE REGULATORY BURDEN

There are many obstacles to reducing duplicative, outdated, and harmful regulations.

- Special interests will pressure agencies and Congress to keep rules in place that result in concentrated benefits to their constituency but spread costs to the rest of the population.
- Agencies have few incentives to determine which regulations are obsolete or to eliminate their own rules.

- Agency employees are rewarded for creating new regulations and thus have little incentive to provide information that would lead to a rule’s elimination.
- Removing regulation may require congressional consent, and certain statutes’ authors may reject the notion that regulations from those statutes are no longer necessary.

In a 2014 Mercatus Center study, “[The Consequences of Regulatory Accumulation and a Proposed Solution](#),” scholars Patrick McLaughlin and Richard Williams found the most effective strategy to overcome the obstacles listed above would be for Congress to create an independent commission tasked with reducing unnecessary regulatory burdens. To maximize the commission’s ability to curb regulatory accumulation and improve economic growth, they suggest the following:

- The commission would use a transparent method of assessment that focuses on whether and how rules lead to the outcomes desired.
- While the commission would receive input from stakeholders and agencies, it should be explicitly directed to consider how underrepresented stakeholders are affected by regulations.
- The commission would produce a report of regulations and programs to be modified, consolidated, or eliminated.
- Similar to the process used with the Base Realignment and Closure Commission, Congress would need to pass a joint resolution of disapproval to prevent the commission’s recommendations from going into effect.

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