

RESEARCH SUMMARY

Picking on the Little Guy: How Regulatory Rulemaking Harms Small Businesses and Hurts the Poor

Does regulation burden small businesses more than it burdens larger ones? What are the cumulative effects of regulation on businesses of various sizes? What effect does such regulation have on employment, especially for lower-income Americans? Dustin Chambers, Patrick A. McLaughlin, and Tyler Richards set out to answer these questions in “[Regulation, Entrepreneurship, and Firm Size](#).”

They use the regulatory database [RegData](#) to empirically test the effects of regulation on small businesses. RegData quantifies regulatory restrictions from the *US Code of Federal Regulations* and provides nearly five decades of industry-specific data from across the economy. By providing industry-specific data for all federal regulation over such a long period of time, RegData facilitates research that was previously unfeasible and permits more precise results than the case studies or anecdotal evidence that existing research has largely relied on.

KEY FINDINGS

- *Small firms seem to have a harder time coping with higher regulatory growth.* Controlling for other factors, a 10 percent increase in the regulatory restrictions on a particular industry is associated with a decrease of about 0.5 percent of the total number of small firms within that industry. By contrast, there is no similar change in the number of large firms associated with such an increase in regulation.
- *Regulatory accumulation has a compounding effect.* These results are amplified after several years of regulatory growth (especially above-average growth). This implies that regulatory accumulation not only disproportionately burdens small businesses, but does so at an increasing rate. It is therefore vital to consider the impact of *regulatory flow* rather than just the overall level of regulation.
- *Harming small businesses also harms the poor.* Small businesses tend to be more common in low-income areas and provide important opportunities for economic advancement. Choking off small businesses diminishes economic mobility for the poor.

CONCLUSION

Regulation is a dynamic force in the US economy. Consideration of its costs is essential to understand its true cumulative effects and to ensure a fairer economic system. Small businesses are important for employment, innovation, and economic growth. When the burden of regulation falls disproportionately on them, ripple effects will spread throughout the economy.