MERCATUS CENTER
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RESEARCH SUMMARY

Hitting the Poorest Hardest: How Federal Regulation Is Associated with Higher Poverty Rates in the States

"They should regulate that!"

This is an instinctive response to any perceived problem. Regulation, however, can have unintended consequences. Before opting for regulation, policymakers should carefully assess the consequences of such an action, particularly how it will affect low-income Americans.

Regulation can reduce real incomes, diminish entrepreneurship, increase income inequality, and raise the price of consumer goods. Regulation is very often regressive—low-income individuals bear a disproportionate share of the cost. It is not unreasonable to expect that regulation also increases the number of people living in poverty. Until recently, however, the lack of state-level data has made it impossible to quantify the impact of regulation on poverty rates in the United States.

Dustin Chambers, Patrick A. McLaughlin, and Laura Stanley seek to answer this question in "Regulation and Poverty: An Empirical Examination of the Relationship between the Incidence of Federal Regulation and the Occurrence of Poverty across the States." This paper is the first to estimate the relationship between poverty and regulation.

The three key elements of the paper are the innovative data used, the main finding, and the practical recommendation to policymakers and regulators.

- *New data source—the FRASE index.* For their study, the authors employ the Mercatus Center's recently created Federal Regulation and State Enterprise (FRASE) index. This is an industry-weighted measure of the burden of federal regulations at the state level.
- *Relationship between regulation and poverty.* The authors were careful to control for the other factors known to influence poverty rates. Having done this, they find a robust, positive, and statistically significant relationship between the FRASE index and poverty rates across states. **A 10 percent increase in the effective federal regulatory burden upon a state is associated with about a 2.5 percent increase in the poverty rate.**
- *Policymaker recommendation.* When weighing costs and benefits, policymakers should always be mindful of the unintended rise in poverty that is associated with additional regulations. This relationship between regulation and poverty should give policymakers reason to pause the next time they hear the demand, "They should regulate that!"