TESTIMONY

REGULATORY REFORM AND CUTTING THE RED TAPE IN PENNSYLVANIA

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Greetings, Chair Laughlin and members of the committee. Thank you for the opportunity to testify.

My name is Dustin Chambers. I am a professor of economics at Salisbury University and a senior affiliated scholar at the Mercatus Center at George Mason University. My research focuses on income inequality, economic growth, and the excessive burden of regulation on lower-income households. Any statements I make reflect my opinion only and do not reflect the opinions of Salisbury University or the Mercatus Center.

My testimony today focuses on two important points:

1. Red tape reduces living standards for most people, especially the poor.
2. Poorly crafted regulations harm the Pennsylvania economy in general, particularly small businesses.

RED TAPE HARMS THE MOST VULNERABLE POPULATIONS

As of 2022, Pennsylvania was the 12th most-regulated state in the nation; its administrative law included 166,219 regulatory restrictions (22 percent higher than the national average) and an astonishing 13.3 million words.

According to peer-reviewed research published in numerous academic journals, higher levels of regulation are associated with increased levels of poverty, income inequality, and mortality.[1] Specifically, a 10 percent increase in binding federal regulations of industries in a given state is associated with the following:

[1] Given the better availability of data at the federal level, the published studies cited in this testimony examine the association between federal regulations and the various outcomes of interest. For the impact of regulations on poverty, see 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, (September 2019): 131–44. For the impact of regulation on income inequality, see Sanchari Choudhury, "The Causal Effect of Regulation on Income Inequality across the US States," *European Journal*

- a 2.5 percent increase in the poverty rate
- a 5.3 percent increase in the mortality index
- a 4 percent increase in the income inequality

Based upon these findings, the Mercatus Center has published estimates of how many Pennsylvania residents experienced harm from federal regulations.[2] It should be noted that these are underestimates of the negative impact of regulations, as they do not include state and local rules and ordinances, nor do they count regulation growth since 2017. As of 2022, the growth of federal regulations that apply to state industries in Pennsylvania is associated with[3]

- 194,580 additional people living below the federal poverty line (1,530,697 actual residents or an 11.8 percent poverty rate, versus 1,336,117 actual residents or a 10.3 percent poverty rate in the absence of regulation growth); and
- a 23 percent increase in income inequality.

RED TAPE HARMS THE ECONOMY AND SMALL BUSINESSES IN PENNSYLVANIA

According to one highly cited study, US federal regulations trimmed the growth rate of the US economy annually by about 0.8 percentage points between 1977 and 2012.[4] Although this change in economic growth may seem small to the casual observer, the effects compound over time. For example, if the total number of regulations had been frozen between 1980 and 2012, the US economy would have been $4 trillion (or 25 percent) larger in 2012. On a per capita basis, this lost output is equivalent to just under $13,000 per person per year.

Focusing on the impact industry-level regulations have on the total number of firms and employment within that industry, multiple studies have found that higher levels of regulations are associated with fewer total firms and lower levels of employment.[5] Focusing on Pennsylvania specifically, the Mercatus Center has published estimates of the amount of harm Pennsylvania entrepreneurs and workers face as a result of federal regulations.[6] As noted above, these are underestimates of the negative impact of regulations, as they

of Political Economy (forthcoming). For the impact of regulations on mortality, see James Broughel and Dustin Chambers, "Federal Regulation and Mortality in the 50 States," *Risk Analysis* 42, no. 3 (March 2022): 592–613.

2 For more details regarding the poverty estimates for Pennsylvania, see Dustin Chambers and Colin O'Reilly, "The Regressive Effects of Regulations in Pennsylvania" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, April 2022).

3 Due to data limitations, these estimates considered growth only in federal regulations that were binding at the state level between 1997 and 2017. Moreover, these estimates rely on the FRASE index to proxy for said regulation growth.

4 See Bentley Coffey, Patrick A. McLaughlin, and Pietro Peretto, "The Cumulative Cost of Regulations," *Review of Economic Dynamics* 38, (October 2020): 1-21.

5 See James B. Bailey and Diana W. Thomas, "Regulating Away Competition: The Effect of Regulation on Entrepreneurship and Employment," *Journal of Regulatory Economics* 52 (October 2017): 237–54; Dustin Chambers, Patrick A. McLaughlin, and Tyler Richards, "Regulation, Entrepreneurship, and Firm Size," *Journal of Regulatory Economics* 61 (April 2022): 108–34; and Dustin Chambers, Patrick A. McLaughlin, and Oliver Sherouse, "Regulation, Entrepreneurship, and Dynamism," *Empirical Economics* (October 2022).

6 See Dustin Chambers and Colin O'Reilly, "The Regressive Effects of Regulations in Pennsylvania" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, January 2021).

do not include state and local rules and ordinances. As of 2017, the growth of federal regulations is associated with an **annual loss** of

- 361 small businesses and
- 5,195 jobs. [7]

BEST PRACTICES FOR REFORM

With mounting evidence that regulations have wide-reaching and profound unintended consequences, there is a growing movement among US states to purge unnecessary red tape. To that end, Alabama, Arizona, Idaho, Kentucky, Ohio, Rhode Island, and Virginia have initiated comprehensive reviews of their existing regulations and have set regulation reduction targets ranging from 15 to 30 percent. In addition to regulatory budgeting rules, states have also successfully used sunset provisions to compel their administrative agencies to review existing regulations, and in the case of Idaho, to reform the state's entire body of administrative laws:[8]

> In 2019, Idaho did something that no other US state had ever done: it allowed all its existing regulations (which have sunset provisions) to expire. In one stroke, over 1,800 pages of regulations were eliminated. After reauthorizing legally necessary and critical regulations, the Gem State had eliminated 75 percent of all regulations, thus surpassing South Dakota as the least regulated state in the nation. Governor Brad Little also signed two key executive orders, which instituted a 1-in-3-out rule for new regulations and greatly eliminated occupational licensing restrictions.

CONCLUSION

Pennsylvania has nearly 30,000 more regulatory restrictions than the average US state. Although Pennsylvania has fewer regulatory restrictions than neighboring New York, New Jersey, and Ohio, the Buckeye state has aggressively pursued regulatory reform efforts and has identified approximately 30 percent of the state's regulations for elimination. Moreover, other states within the region such as Delaware, Maryland, and Virginia all boast fewer regulations. If Pennsylvania wants to protect vulnerable populations and improve its regional competitiveness, it needs to take active steps to trim red tape.

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[7] Due to data limitations, these estimates considered growth only in federal regulations that were binding at the state level between 1997 and 2015. Therefore, these federal impacts are likely underestimates.

[8] See Dustin Chambers, "The Human Cost of Regulations and Some Possible Solutions" (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, November 2022).