POLICY SPOTLIGHT

Tackling the Human Cost of Regulations

DUSTIN CHAMBERS | OCTOBER 2023

Government regulations have been historically regarded as a necessary tool to control undesirable behavior, promote worker and consumer safety, and prevent dominant firms from abusing their market power. Most economists accept that regulations have negative impacts on commerce and economic growth. These consequences are often regarded as the price that must be paid to protect vulnerable populations and promote higher ideals such as environmental protection. Such tradeoffs can occur with carefully designed, appropriate regulations. Unfortunately, badly designed regulatory systems replete with red tape can have serious negative and avoidable effects on low-income individuals, households, and communities. Because of lagging accountability and reform within regulatory agencies, such unintended consequences go unnoticed, unreported, and—more importantly—unaddressed.

NEGATIVE AND UNANTICIPATED EFFECTS ON THE POOR

The unintended consequences of regulations can harm businesses, workers, and households of every kind. But researchers are increasingly discovering that this harm disproportionately affects poorer Americans. Economists call such disparate impacts "regressive effects." Specifically, researchers find that higher levels of regulation are associated with higher levels of income inequality, higher rates of poverty, and increased mortality rates.

- *Income Inequality*: A 10 percent increase in federal regulations (that apply to a given state) is associated with a 0.5 percent increase in income inequality. For example, between 1997 and 2015, states on average experienced 2.9 percent higher income inequality because of growing federal regulations.
- *Poverty*: A 10 percent increase in federal regulations (that apply to a given state) is associated with a 2.5 percent increase in poverty. Nationwide, an estimated 6.9 million additional people lived in poverty in 2019 as a result of increased federal regulations between 1997 and 2015.
- *Mortality*: A 1 percent increase in federal regulations (that apply to a given state) is associated with a 0.53 percent to 1.35 percent increase in mortality rates.

SIGNS OF REFORM

Despite the grim, unintended consequences stemming from decades of regulation, there is reason to hope that lasting reform is possible.

The oldest and perhaps best model of reform comes from the Canadian province of British Columbia, which in 2001 committed to slashing its 382,000 regulations by one-third. As a result of these reforms, business incorporations rose while bankruptcies declined, and British Columbia's rate of economic growth went from below average to above average in the six years after the reforms were enacted.

Several US states have also embarked on serious and comprehensive campaigns to (a) identify and eliminate unnecessary costly regulations and (b) impose regulatory budgeting rules that require state agencies to continuously reevaluate and eliminate poorly performing regulations before promulgating new ones.

States such as Arizona, Idaho, Kentucky, Ohio, Rhode Island, and Virginia have set regulation reduction targets ranging from 15 percent to 30 percent and rolled out regulatory budgets. And while these experiments are only quite recent, the early results are very encouraging.

A PATH FORWARD

Far too many Americans have faith in the notion that most problems and undesirable outcomes can be solved by more government rules, while they remain oblivious to these policies' human costs. Going forward, three broad principles should guide regulatory policymaking and reform:

1. Regulations should be used only as a last resort.
2. Regulations should be appropriately designed to achieve social objectives while minimizing economic and human costs.
3. Regulations' estimated benefits should exceed their costs.

FURTHER READING

1. Dustin Chambers, "The Human Cost of Regulations and Some Possible Solutions," (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, November 2022).
2. Dustin Chambers and Colin O'Reilly, "The Regressive Effects of Regulation," (Mercatus Policy Brief, Mercatus Center at George Mason University, Arlington, VA, May 2022).
3. Dustin Chambers and Colin O'Reilly, "Regulation and Income Inequality in the United States," (Mercatus Working Paper, Mercatus Center at George Mason University, Arlington, VA, May 2020).

ABOUT THE AUTHOR

Dustin Chambers is a Professor of Economics in the Perdue School of Business at Salisbury University and a Senior Affiliated Scholar with the Mercatus Center at George Mason University. Dr. Chambers is an applied econometrician who has published widely on the topics of income inequality, poverty, and economic growth.

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