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RESEARCH SUMMARY

Regulation and Economic Growth: Evidence from British Columbia's Experiment in Regulatory Budgeting

Following a decade of lackluster economic growth, the newly elected government of British Columbia in 2001, hoping to break this trend, promised to reduce its regulatory burden by one-third within three years. To achieve this goal, it crafted a regulatory budget that required elimination of two regulatory requirements for every new one introduced. In "Regulation and Economic Growth: Evidence from British Columbia's Experiment in Regulatory Budgeting," Bentley Coffey and Patrick A. McLaughlin find that the use of a regulatory budget was associated with higher rates of economic growth.

REGULATIONS DOWN, ECONOMIC GROWTH UP

At the turn of the century, British Columbia had a reputation within Canada for regulatory excess, which can negatively affect critical drivers of economic growth such as innovation, entrepreneurship, and competition. After establishing a baseline estimate of its regulatory burden, the new provincial government launched the Red Tape Reduction Action Program, which represents the first successful implementation of a regulatory budget:

- Between 1994 and 2001, British Columbia's economy grew at about 2.6 percent per year, while Canada overall grew at about 3.9 percent.
- After three years of regulatory reform, the province managed to reduce its regulatory requirements by 36 percent.
- Between 2001 and 2006, British Columbia's economic growth rate surpassed the national rate by an average of 1.1 percent per year.

HOW MUCH OF THIS ECONOMIC TURNAROUND IS ATTRIBUTABLE TO REGULATORY REFORM?

Given the overall reforming agenda of the new government, Coffey and McLaughlin knew that other potential explanations existed. For example, during this period the government also cut personal income tax, sales tax, and corporate capital tax rates. The authors thus had to control for other reforms unrelated to regulation. They did so by

- comparing the economic performance of British Columbia to other provinces to see if the difference between the provinces' growth rates changed after British Columbia's regulatory budgeting experiment began;
- comparing British Columbia to a synthetic control province, again looking to see how British Columbia's growth changed relative to a comparison province;

- examining those industries that had seen the largest reductions in the number of regulations that affect them to see if their growth rates increased more than other industries; and
- performing a set of regressions that directly account for changes to the stock of regulations as a cause of economic growth.

Coffey and McLaughlin's conclusions are as follows:

- British Columbia's regulatory budgeting directly caused a significant portion of the province's improved economic performance.
- A 1 percent increase in the stock of regulations is associated with a 0.028 percent decrease in year-to-year economic growth.
- Given that British Columbia's regulatory budget experiment led to a decrease of 36 percent in the stock of regulations, the implied effect on economic growth is an increase of about 1 percentage point.

REGULATORY BUDGETING IS A POLICY SOLUTION TO THE BUILDUP OF REGULATIONS OVER TIME

By adding new rules and restrictions on top of existing ones, the negative effects on the economy of regulatory accumulation are compounded. Such accumulation can occur in subnational (e.g., state, provincial, or municipal) and supranational (e.g., the European Union) settings as well as in national jurisdictions (e.g., US federal regulations).

To date, however, very few governments have launched successful interventions. This makes British Columbia's regulatory budgeting experiment all the more extraordinary. Regulatory budgeting, at least in the way that British Columbia implemented it, offers policymakers a very effective path to increasing economic growth without having to increase fiscal outlays.