RESEARCH SUMMARY

Industry Size and Regulation: Evidence from US States

What explains the extent of industry-level regulation in the United States? In "Industry Size and Regulation: Evidence from US States," Marc T. Law and Patrick A. McLaughlin seek to answer that question by analyzing the cross-state and cross-industry variations that exist in industry-level regulation in the United States. They do so using the Mercatus Center's State RegData, which makes it possible to explore the empirical relationship between industry characteristics and state-level regulation for the first time.

A RANGE OF THEORIES SEEK TO EXPLAIN INDUSTRY-LEVEL REGULATION

The public interest theory points to market failures as a key determinant of the extent of regulation. Special interest theories suggest the extent of regulation depends on pressure from interest groups and politicians who mold regulation to advance their private objectives. Other hypotheses emphasize the importance of the fixed costs of establishing a regulatory regime or the political salience of an industry.

WHAT THE EVIDENCE SHOWS

The extent of industry-level regulation is robustly correlated with the size of the industry:

- Within most states, larger industries face more regulation.
- Within most industries, state regulation increases with industry size.
- Law and McLaughlin's findings are consistent with hypotheses that emphasize the fixed costs of establishing regulation or the salience of large industries.
- The authors' findings are not consistent with hypotheses that suggest that regulation is influenced by factors such as average wages, firm size, or the distribution of firm sizes.
- The findings do not provide direct evidence on the public interest theory, which posits that market failures lead to an increase in regulation.
- The evidence is not consistent with the special interest theories that emphasize firm size or industry concentration as a predictor of regulation. The authors find no statistically significant correlation between the average firm size in an industry or the share of employment concentrated in the largest firms and the number of regulatory restrictions.

KEY TAKEAWAY

We should expect that larger industries will be more heavily regulated by the states. However, this may simply reflect the fact that fixed costs are associated with establishing a regulatory regime and that these are specific to a particular industry. This is likely to be the case regardless of whether the industry is subject to substantial market failures.