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THE GROWING REGULATORY BURDEN: IS IT HARMING U.S. COMPETITVENESS?

Every developed nation strives to achieve solid, sustained economic growth—a critical component of which is the ability of domestic firms to compete profitably in global markets.

In Washington, the ongoing debate over how best to strengthen the United States' international competitiveness has focused almost exclusively on spending and tax policy. But some economists and private-sector managers are pointing to an additional area of concern: the impact of the increasing burden of government regulation.

A new Mercatus study, "Regulation and the International Competiveness of the U.S. Economy," summarizes and assess evidence relating government regulation in the United States to the international competitiveness of the U.S. economy. The study employs two decades of data (1990-2010) from the Organization for Economic Co-operation and Development (OECD), as well as findings from other academic studies and a host of internationally recognized business surveys to address the following questions:

1. Has the international competitiveness of U.S.-based companies declined in recent years relative to companies in other OECD countries?
2. Has government regulation become more onerous for U.S.-based businesses compared to other OECD countries' government regulation on the private sector?

Below is a summary of the study's key findings. To read the study in its entirety and learn more about its authors, please click here.

SUMMARY

Is U.S. Competitiveness In Decline?

The study's analysis of available evidence suggests that competitiveness of U.S.-based companies is declining relative to companies based in other OECD countries. Key data is summarized below.

<u>OECD</u> data over the period 1990-2010 or 2011 was used to compare the United States to more than a dozen OECD countries; key measures of economic competitiveness included the following:

- ***Productivity growth***—a key indicator of a nation's economic performance, largely reflective of real per-capita income growth; and
- ***Other Measures.*** These include: (a) indicators of technical change—a country's ability to innovate and rapidly adopt new production and management practices; (b) direct foreign investment flows into the domestic market; and (c) expressed intentions to relocate investments.

The study found that, relative to other OECD countries, numerous measures of economic performance show a notable deterioration in the United States' position.

- While the U.S. maintained an advantage in productivity growth over all other OECD countries from 1996 to 2010, the extent of its advantage has been shrinking over the past 5 years.
- On indicators of technical change (innovation), the U.S. ranking was strongest in 2008, with some deterioration since (in 2011, two OECD countries ranked higher than U.S. and one tied the U.S.).

According to the World Economic Forum (WEF) Global Competitiveness Index, thousands of surveyed business leaders believe the United States' superiority in the potential for innovations has decreased.
- As of 2011, two other OECD countries were rated as a better environment for innovation, and another tied with the U.S. Prior to 2011, all other OECD countries were rated inferior to the U.S.
- While the U.S. still attracts the most amount of foreign direct investment, the margin of difference between the U.S. and other developed nations narrowed in recent years.
- The U.S. position on relocation threat for research and development activities deteriorated from 2000 to 2011; nine countries rated superior to U.S., and one tied with the U.S.
- The U.S. position on relocation threat for production activities also deteriorated from 2000 through 2011.

The Institute for Management Development's surveys of business leaders also suggest the threat of businesses relocating both production and research and development activities from the United States has increased in recent years.
- In 2000, the U.S. was rated as the country from which businesses were least likely to relocate their activities.
- In 2011, nine OECD countries were rated as having less risk than the U.S. of business relocation.

A Harvard Business School survey asked nearly 10,000 of its alumni to identify the potential for decline in United States' international competitiveness.
- Three quarters of respondents expected U.S. competitiveness to decline.
- Respondents cited regulation of U.S. businesses as a key driver of decline.

HAS U.S. REGULATIONS ON BUSINESS BECOME MORE ONEROUS IN RECENT YEARS?

Using data spanning the same period in which the United States' competitive advantage appears in decline, the study assessed survey data regarding the burden of U.S. regulations on the domestic economy. Key data is summarized below.

WEF Global Competitiveness Index survey results show business leaders ranked the United States in the middle of OECD countries in terms of regulatory burden, with the number of countries ranked as superior to the U.S. (with less burdensome regulations) on the increase.
- In 2005, only two OECD countries were ranked as having better protection of property rights. By 2011, 14 of the 17 other OECD countries were rated as superior to the U.S.
- While survey respondents estimated the number of new procedures to start a U.S. business unchanged, they estimated the number of days to start a new business to have increased since 2005.

World Bank survey results showed that in 2005, four OECD countries ranked higher than the United States in regulatory quality. In 2010, ten OECD countries were rated as superior to the U.S.

Heritage Index of Economic Freedom
- In 2005, only one OECD country ranked superior to the United States in terms of "business freedom"—the ability to start, operate, and close a business. In 2011, eight countries ranked superior to the U.S.
- In 2005, the U.S. ranked the best in terms of "financial freedom"—a measure of banking efficiency and of independence from government control and interference in the financial sector. In 2011, nine other OECD countries ranked superior to the U.S.

WEF's Global Competitiveness Index survey results show that in 2005, no OECD country was ranked better than or equal to the United States in terms of competition intensity among businesses within a domestic market. In

2011, nine OECD countries ranked superior to the U.S., and two countries ranked as equal. Only six OECD countries ranked below the U.S.

Conclusion

The available evidence indicates that U.S. international competitiveness has deteriorated by certain measures and suggests that future—and potentially more economically significant—declines may be anticipated. Evidence also identifies deterioration in the U.S. regulatory environment relative to other developed economies.

While the authors note that further research is necessary to clarify the relationship between the two phenomena, other evidence suggests that the increasingly complex, uncertain and costly regulatory regime in the United States has harmed the performance of the U.S. private-sector relative to other countries.

While not a primary consideration, the study also highlights data suggesting that a singular focus on the *short-term* impact of regulatory changes may be too narrow. The authors note that there is predictable lag time between significant regulatory changes and market reaction. An example is the deregulation of the telecommunications industry and the productivity boom that followed years later. Future research will examine the relationship between productivity and regulatory lag times.

For more information, contact Robin Bowen, Associate Director of Outreach, email: rbowen5@gmu.edu, phone: 703-993-8582
Mercatus Center at George Mason University ● 3351 North Fairfax Drive, 4th Floor ● Arlington, VA 22201