

Federal regulations are not a significant threat to job creation, new EPI report shows



Sound federal regulations are essential to a well-functioning economy and healthy job market, and the overall benefits of regulations consistently and significantly exceed their costs, a new Economic Policy Institute (EPI) Briefing Paper shows. Furthermore, though opponents of regulations argue that they harm the economy and impede job creation, the evidence does not support this general argument. Finally, prospective government cost estimates of regulations tend to overstate their costs, as do industry studies. [Regulation, Employment, and the Economy: Fears of job loss are overblown](#) by EPI researchers Isaac Shapiro and John Irons finds that regulations have generally struck a reasonable balance between positive and negative effects on the economy and that an emphasis on deregulation can contribute to dramatic economic dislocation.

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Well-designed and strongly-enforced regulations are often necessary for the economy to operate effectively, a conclusion reinforced by three recent examples. First, the absence of strong regulation was a primary cause of the financial crisis that has produced severe economic pain and enormous job loss. Second, the British Petroleum Deepwater Horizon oil spill, which led to widespread environmental and economic damage in and around the Gulf of Mexico, occurred in the context of stunningly lax regulatory oversight. Third, the food industry itself embraced the passage of the Food Safety Modernization Act, which strengthened the Food and Drug Administration's regulatory regime in a manner that the industry believed would restore confidence in and demand for its products.

Regulation, Employment, and the Economy reviews the best available evidence on the costs and benefits of federal regulation. The most recent annual report to Congress by the Office of Management and Budget (OMB) summarizing the costs and benefits of regulations, which covered fiscal years 2000 to 2010, found that the benefits of the major regulations it reviewed exceeded their costs each year. A second study, a state-of-the-art Environmental Protection Agency study released in March, found that the benefits of the Clean Air Act Amendments of 1990 exceeded their costs by a ratio of 25-to-1. Taken together with other OMB data examining regulations in place as of 1999, the OMB and EPA studies demonstrate an unmistakable pattern: over the past several decades, the benefits of regulations have consistently and significantly exceeded their costs.

Assertions that specific regulations can cause significant job loss are misguided. Economy-wide studies do not find that regulations cause a significant decline in employment, nor, generally, do studies at the industry level. A surprising number of studies, in fact, find small positive employment effects, even from environmental regulations. Further, "extended mass layoff" data suggest that regulations cause the loss of a small proportion of jobs (or about 0.3% of the jobs lost due to extended mass layoffs in 2007-2009). Finally, studies of whether regulations

encourage the relocation of economic activity from the United States to other countries are mixed but suggest that concerns about "regulatory havens" are overblown.

In the process of formulating and adopting regulations, federal government agencies develop predictive cost estimates. Repeated studies of these estimates consistently suggest that they tend to be too large. One study, for example, found that of 21 government costs estimates, 13 turned out to be overstated significantly while only three turned out to be significantly understated. In part, this is because cost estimates often fail to take into account how technological advances reduce expected compliance costs.

Similarly, and perhaps unsurprisingly, studies by opponents of specific regulations also tend to overestimate the cost and employment impact those regulations will have. Among the studies in this category is a recent analysis of the employment effects of state employment regulations which, if anything, shows that such regulations are associated with higher state per-capita incomes. The EPI report also debunks the frequently-cited study of the high costs of federal regulations by economists Nicole V. Crain and W. Mark Crain.

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