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Press Release

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New Phoenix Center Economic Study Shows Direct Relationship between Government Spending on Regulatory Activity and Economic Growth and Job Recovery

Data Show that Reducing the Size of the Federal Regulatory Bureaucracy by Even Modest Amounts will have Significant Positive Effects on Both GDP and Private Sector Growth

WASHINGTON, D.C. – With a sluggish economy, high unemployment, and unprecedented deficit spending, growing the economy and curbing federal spending are top priorities in Washington. A now-popular target for reform is regulation, which even President Obama claims to have “stifled innovation” and to have had “a chilling effect on growth and jobs.” In a new paper released today entitled *Regulatory Expenditures, Economic Growth and Jobs: An Empirical Study*, the Phoenix Center uses fifty years of data and modern econometric methods to quantify the relationship between government spending on regulatory activity and the important goals of economic growth and job recovery. The Center finds reducing the size of the federal regulatory budget by even modest amounts will have significant positive effects on both GDP and private sector growth.

In particular, the Phoenix Center estimates that even a small 5% reduction in the regulatory budget (about \$2.8 billion) would result in about \$75 billion in expanded private-sector GDP each year, with an increase in employment by 1.2 million jobs annually. On average, eliminating the job of a single regulator grows the American economy by \$6.2 million and nearly 100 private sector jobs annually. Conversely, each million dollar increase in the regulatory budget costs the economy 420 private sector jobs. Accordingly, as Congress and the President struggle with the difficult decisions of how to shrink federal spending, the Phoenix Center recommends that a sensible place to start would be to investigate responsible cuts in the budgets of federal regulatory agencies.

“Our statistical analysis of historical data indicates that federal expenditures on regulatory activity have a significant impact on the size of the private-sector economy and private-sector employment,” says Dr. George S. Ford, Chief Economist of the Phoenix Center. “While the entire federal budget must be cut to address the deficit problem, the evidence indicates that reductions in the overall federal regulatory budget may substantially impact the growth of economic output and employment.”

“In the end, our paper really is a ‘good government’ story,” says Phoenix Center President Lawrence J. Spiwak. “If regulators are forced to become more efficient on how they spend

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taxpayer dollars, then perhaps they will prioritize their activities on important policy issues rather than pursue marginal interventions that impose high costs but offer few benefits.”

“Like fiscal or monetary policy, regulation is used by government to affect economic activity,” observes Dr. T. Randolph Beard, Phoenix Center Senior Fellow and Professor of Economics at Auburn University. “However, the macroeconomic effects of regulation have not been adequately considered. This study suggests that those effects may be quite significant, and some accounting for these effects should be a part of every debate on regulatory proposals.”

“Without question, regulation imposes costs on the economy, but regulation, in some cases, also provides benefits,” says Dr. Hyeongwoo Kim, Phoenix Center Adjunct Fellow and Professor of Economics at Auburn University. “Our analysis reveals that the costs are very large, which, in turn, implies that regulators should act only when the expected benefits are likewise very large. With a smaller budget, the hope is that the regulators will focus their efforts on interventions with a very high expected net payoff.”

PHOENIX CENTER POLICY BULLETIN NO. 28: *A Policy Framework for Spectrum Allocation in Mobile Communications*, may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/PolicyBulletin/PCPB28Final.pdf>.

A one page summary of the paper may also be downloaded at: <http://www.phoenix-center.org/PolicyBulletin/PCPB28onepagerFinal.pdf>.

Finally, illustrative slides of the paper’s findings are available at: <http://www.phoenix-center.org/PolicyBulletin/PCPB28slidesFinal.pdf>.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of regulated industries.

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