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Cutting government red tape produces new jobs

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A study by the Phoenix Center that was published in April received too little attention in the nation's mainstream media, including The Washington Examiner. With the most recent data showing the economy is clearly stagnating, and with the federal budget talks on Capitol Hill similarly stumbling along, it's time that the Phoenix study of the effect of federal regulation on private-sector job creation gets the notice it deserves.

President Obama's re-election prospects almost certainly will hinge on the state of the economy come Election Day. An estimated 14 million Americans are unemployed now, counting both those currently receiving unemployment checks and those whose benefits have expired and who have given up looking for jobs. Most experts agree that, even under the most optimistic scenarios, unemployment will remain at 8 percent or above between now and November 2012. So irrespective of ideological considerations -- the Phoenix Center is a strong proponent of free markets -- Obama would be well-advised to pay close attention to its findings.

According to the Phoenix study, "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." The reverse is true as well, according to Phoenix, which said "each million dollar increase in the regulatory budget costs the economy 420 private sector jobs."

"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 at 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."

It's hard to imagine any way of making it clearer: Whatever merits it may otherwise have, the federal regulatory bureaucracy is a tremendous drag on the economy, diverting and destroying the very precious investment capital that is essential to generating the growth that creates jobs that pay the taxes that fund the government. This provides an important insight into why federal offices like the Environmental Protection Agency do not consider the effect of proposed regulations on the ability of the economy to generate jobs.

It should be noted that the Phoenix study authors are by no means blind to the fact that some government regulation is essential and has positive benefits. "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," said Dr. Hyeongwoo Kim, Phoenix Center adjunct fellow and professor of economics at Auburn University.

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