

The Truth Test: Regulation and Competitiveness¹

Anti-regulatory arguments claim that regulation is inherently a burden that weakens the competitiveness of American businesses in the global market. Yet a plethora of scholarly studies indicates that the opposite is true: regulation not only does not hinder U.S. competitiveness but actually may increase the competitive advantage of the United States. Overall, factors such as wages and trade agreements play a much larger role than regulation in determining U.S. competitiveness. Economists have been unable to find the strong negative correlation between regulation and competitiveness. This finding may run counter to intuition, but it suggests that protecting public health, safety and the environment can have real economic advantages; the United States does not have to sacrifice public protections in order to promote U.S. competitiveness.

Myth	Fact
<p>Regulation negatively influences decisions on plant locations</p>	<p><i>Regulation does not negatively impact plant location decisions.</i></p> <ul style="list-style-type: none"> • The Jaffe et al. study looked at all three indicators of competitiveness and found on all accounts that regulation was not a major factor in competitiveness. In the case of plant location decisions, Jaffe et al. found that there is little evidence to support the conclusion that stringent regulation is a major determinant in plant location decisions. This finding is corroborated by a host of other economists. • Timothy J. Batrik studied the impacts of state government environmental regulation expenditures on plant location decisions and found that such expenditures had an insignificant effect on plant locations. • Kevin Gallagher found that plants moving to Mexico are not the ones with highest pollution abatement costs; overseas movement of industries is affected more by labor costs than by regulation. • A look at plant location within India found that increased government spending on environmental regulation not only did not deter plant location but actually had a positive impact.
<p>Regulation costs jobs</p>	<p><i>Economists have also refuted the claim that increased regulation decreases jobs.</i></p> <ul style="list-style-type: none"> • Economist Eban Goodstein at the Economic Policy Institute has written substantially on the relationship of jobs and the environment. According to Goodstein, the jobs-environment trade-off is largely a myth. Goodstein's book <i>Jobs and the Environment: The Myth of a National Trade-Off</i> finds a small positive effect of

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	<p>environmental regulation on overall employment, especially in the area of manufacturing workers. Goodstein also finds that environmental regulation does not lead to manufacturing plant shutdowns.</p> <ul style="list-style-type: none"> • Berman and Bui also found that regulation had no impact on labor demands. The authors examined the impact on labor demands of increased air pollution abatement in the Los Angeles area. In looking at data from 1979 through 1992, a period that saw sharp increases in environmental regulation, they found that increased regulation had no effect on employment in refineries. • Berman and Bui also found that in meeting more stringent environmental standards, oil refineries in the Los Angeles Air Basin actually increased their productivity and efficiency. Interviews with “plant managers and environmental engineers suggested that productivity increases were not accidental. They resulted from a careful redesign of production processes induced by the need to comply with environmental regulation.” • Stephen Meyer compared regulation across states in the United States found that environmental regulation did impact economic prosperity. In fact, “states with stronger environmental regulations tended to have higher growth in the gross domestic products.” Though the correlation does not suggest causation, it does indicate that environmental regulation does not hinder state’s economies. The correlation held true even during times of recession. In an update focusing on the 1990-91 recession, Meyer found states with stronger environmental regulation were not more likely to face economic decline during a period of recession than states with weaker environmental standards.
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Although the United States already has the least restrictive regulation in the world and is third on the list of the world’s top ten economies, the business community has continued to assert that health, safety and environmental regulation is overly burdensome and must therefore be repealed. Yet the evidence shows that the cost to business of complying with regulation is negligible and that factors such as wages and trade agreements have a far greater impact on the competitiveness of U.S. business or the choice of an industry to move business overseas.

