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Boris Johnson should heed Trump's approach to regulation

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Donald Trump is, to put it mildly, prone to exaggeration. His Davos speech this week talked of overseeing a US "economic boom the likes of which the world has never seen before". To listen to him, everything in America now sounds "fantastic", "the best" or "unprecedented".

But while critics pour scorn on his poetic licence, Trump is right that his economy has defied expectations and outperformed other developed nations. And no policy area shows the structural break he has overseen better than the approach on economic regulation.

Even here, Trump lays it on thick. Upon entering the White House, he promised to scrap 75pc of all federal economic regulations. Unsurprisingly, that hasn't happened, despite claims of "massive deregulation".

Yet an oil tanker takes some time to turn around. What Trump's team has achieved is incredible: slamming on the brakes of the regulatory state after years of runaway growth.

Capital Economics has assessed some of the numbers. The pages of the Federal Register of regulations has simply stopped growing after ballooning from the mid-Nineties. US spending and employment in regulatory agencies has fallen meaningfully.

Only 98 economically significant new regulations have been introduced in Trump's term to date, compared with an average of 175 at this stage in Barack Obama's first two terms. Little wonder the number of small businesses citing regulation as their biggest problem has nearly halved.

There has been meaningful, actual deregulation in certain areas too. Trump's Council of Economic Advisors has shown how the administration oversaw new rules on generic drugs that led to a rise in approvals of 17.5pc, which (they estimate) will cut prescription drug prices by around 10pc.

Obama's "net neutrality" laws, that would have given government extensive powers to regulate internet pricing, were repealed and government has rolled back rules on employment practices for many small businesses, streamlined environmental reviews for infrastructure projects and improved targeting of federal spending.

After years of public debate in the UK whereby bans or new business regulations are proposed to cure every perceived societal ill, “deregulation” or “reform” seem almost alien concepts to many Conservatives. But Britain’s departure from the EU and our promised regulatory divergence grants an opportunity to reassess many laws, some of which may be economically defunct or needlessly restraining economic activity.

More importantly, it might provide a catalyst to follow Trump’s reset: moving away from a continuous tsunami of new prescriptive regulations that pretend Whitehall or Brussels knows best.

In an age with extensive within-market regulation arising from consumers’ demand for safety, rating and review websites, accreditation agencies and more, it’s not clear why one-size-fits-all rules are necessary for many industries.

Yes, broad environmental frameworks and certain major health and safety laws should be maintained. A “bonfire” of existing red tape is fantasy, not least because of political sensibilities and resistance from incumbent firms that have ploughed in funds to comply.

But what Trump’s hands-off approach has allowed is businesses to get on with devising new products, innovations, or workplace organisation practices, without constantly looking over their shoulder in expectation of politicians or regulatory agencies.

The scale of the impact of this easing of the boot on businesses’ throats in macroeconomic terms is debatable. Economists disagree as to the costs and benefits of individual regulation and it’s difficult to ascertain their economy-wide effects.

Trump’s team believes his agenda has provided savings amounting to $2,500 (£1,900) per household per year, even after accounting for regulation’s benefits. This figure tots up 20 of the biggest regulatory changes and the impact of a counterfactual world under which Democrats continued to grow the regulatory state. One can criticise this methodology.

Some changes, such as on generic drugs, were in the works pre-Trump. Other attempted deregulations are now being held up in the courts, while new trade policies amount to effective regulation not included in the calculations.

More worryingly, there often seems little overall theory behind some areas where genuine deregulation is being pursued. If deregulation is a mere tool to support specific industries rather than a principled commitment to market-led activity, then a failure to achieve Trump’s objectives may be a precursor for other bad, interventionist policy.

Nevertheless, for now, it appears to be working: the US average annual productivity growth rate under Trump is just under 1.5pc, compared with less than 1pc for the previous five years. Birth and death rates of American companies are picking up, indicative of the economy becoming more dynamic. These achievements are more remarkable given the headwinds of the trade war.

By reducing the costs of regulatory compliance and entry barriers for new players, and providing an environment for more permissionless innovation, Trump’s administration has given businesses licence to focus on consumers’ demands, rather than regulators’. We would expect the benefits of this on dynamic competition to be greater over time, as Trump himself suggested this week.

As Britain leaves the EU, a lot of focus is going to be on trade policy. Such issues are important. But we shouldn’t forget Britain’s internal trade is far more economically significant. With Boris Johnson’s desire to provide vast new infrastructure projects, Sajid Javid’s call for Britain to be as business-friendly as possible, and a whole range of new industries – from artificial intelligence to fintech – with much to gain outside the EU, the Government needs to take regulation seriously.

They should follow Trump in turning off the taps to assess the stock.

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