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Shift the Jobs Debate

Regulatory reform, not more spending, will grow the U.S. economy.

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Many congressional debates over how to improve the economy have centered on whether increased government spending will help create jobs. But in recent months the jobs debate is shifting toward something that could actually help: regulatory reform.

The shift in strategy is a welcome move considering the incredible regulatory burden faced by Americans and business owners in the U.S. Recent economic research has estimated that economic growth in the U.S. is slowed by as much as 2 percent per year because of the accumulation of restrictions in the federal regulatory code. With regulations causing that sort of drag, even a little bit of regulatory reform could go a long way toward improving the economy.

Regulatory reform may be our best option for another reason: increased government spending won't fix our slow economic growth rate. For one thing, we have tried it before. In 2009, the administration implemented a large stimulus spending bill in the hope that unemployment rates would stop increasing. Unsurprisingly, the results were far from what we were promised; unemployment remains high, and the recovery in the labor market has been relatively weak.

Second, raising spending to trigger growth does not hold water in today's America, even from a purely Keynesian perspective. That's because, as academic research has shown, government spending can't effectively stimulate growth in a high debt environment. And U.S. debt levels are extremely high. The debt to gross domestic product ratio has reached 74 percent — or twice its 2008 level — and our gross debt has gone over the 100 percent mark. In other words, Keynesians shouldn't expect any growth from spending at our current debt levels.

Hopefully, lawmakers will stay away from the temptation to reduce our debt through higher taxes. Research has shown that countries that raise taxes and fail to keep spending under control than those that rely on spending cuts to get their fiscal houses in order.

If Congress really wants to help the economy, rather than increasing spending, it should consider two broad types of regulatory reform. First, rein in the growth of costly, ineffective regulations that are holding back economic growth and deterring businesses from investing. Second, empower an independent commission to take a hard look back at existing regulations and determine which ones are obsolete, ineffective, or inefficient. Then repeal or modify them as needed.

Government regulations force companies to invest time, money and employees on compliance efforts instead of production of the goods and services that people want. Recognizing that, some lawmakers are now making the case to reform the federal regulatory process for new rules to help get more people back to work, and formalize a more rigorous retrospective review of existing rules.

The recently introduced Jumpstarting Opportunities with Bold Solutions Act, H.R. 4304, known as the JOBS Act, contains a number of regulatory reform measures. (This is not to be confused with the Jumpstart Our Business Startups Act, which became law in 2012.) The bill would require all agencies — not just executive branch agencies — to consider the economic impact of proposed rules versus the benefits. This change would help agencies more judiciously choose when not to regulate, and to choose the most cost-effective option when they do.

The JOBS Act would also require agencies to perform retrospective reviews of major regulations (those with an annual economic impact of $100 million or more). This requirement could help identify — and then modify or eliminate — some of the accumulated red tape that can be shed without sacrificing benefits.

There currently is no process for the independent review of older rules that may be ineffective or out-of-date, although numerous presidents have tried to force agencies to engage in retrospective review. An act of Congress directing agencies to engage in meaningful retrospective review may lead to a better review, if for no other reason than that Congress controls agency budgets. Still, agency-led review of their own regulations is something like asking students to grade their own tests. You will get a much more honest assessment if the reviews are performed by an independent party.