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My View: State rules stymie economy? Don't trust professors' study

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A new study by two professors at California State University, Sacramento, estimates that the burden on California's economy resulting from state regulations amounts to a shocking $500 billion - nearly one-third of the state's output.

Disturbingly, this result is based on one of the worst examples of schlock science we've ever seen. And chillingly, it is already being held up by a number of state leaders as a shrill rallying cry in the partisan fight over the state's regulatory environment.

This is truly bad analysis, and it matters because it once again points to the urgent need to have policy research vetted through third parties for methodological soundness and intellectual honesty. Now more than ever, the state must make it a priority to base policy decisions on rigorous research rather than pseudoanalysis that twists or flat-out ignores the truth.

The report's authors generate their estimate of direct losses caused by California's regulatory environment using a statistical technique called regression analysis. This method allows researchers to measure the direct impact of one variable while controlling for many others. For example, it might allow a researcher to see the direct impact of exercise on weight loss after controlling for other factors such as caloric intake and age.

In this study, the authors purport to assess the economic output of all 50 states based on six measures of the business climate taken from a Forbes magazine survey. The six categories include such things as the quality of the local labor force, the overall cost of doing business and, of course, the regulatory environment.

Each state is ranked in each category using a simple 1-to-50 ranking, with 1 being the best state and 50 being the worst. California is ranked unfavorably in most of the categories, including regulatory environment. The authors compare what the state's economic output is today relative to what they imagine it would be if it were ranked first in this category.

Regression analysis is an invaluable tool for academics, but it relies critically on all statistically important variables being included in the model. To leave out a key variable biases the results and can create nonsensical outcomes.

In this case, the authors do not even control for the most basic determinant of economic output, the size of the labor force - shockingly obvious when you consider that Los Angeles County alone has a larger work force than 44 U.S. states.

Indeed, if you add this one key variable to the equation, the negative relationship the researchers find between the Forbes ranking of regulatory environment and economic output is actually reversed. Whoops!

The illogical results are abundantly clear elsewhere in the report. For example, the results for two of the other measures - the cost of doing business and the quality of the labor force - imply that California could increase its economic output by reducing the quality of its labor force and increasing the cost of doing business in the state. This seems absurd.

There are plenty of other fatal flaws in the "science" behind these numbers, but there is a bigger point to be made. While California's regulatory environment has plenty of room for improvement, to date we seem to have largely overcome these self-inflicted obstacles.

After all, the state has grown faster than the United States overall in terms of employment, income, population, jobs and economic output since 1994. This is the case even after we add in the pain of the current downturn. No coefficient can triumph over this most basic of truths.

California's leaders need to find ways to improve our economy and help it grow. Blanket condemnations of the state's regulatory environment based on research that can kindly be characterized as "highly flawed" do nothing to help. It is not too much to ask that policy debates focus on real research that attempts to measure both the positive and negative results of the rules in question.

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