A Midyear Review of Regulatory Sentiment and Uncertainty

By: Zhoudan Xie | August 18, 2021

In brief…

This commentary provides a midyear review highlighting patterns in the news-based measures of regulatory sentiment and uncertainty during the past months of 2021. Regulatory sentiment reached a historically high point in May, and regulatory uncertainty rose in July.

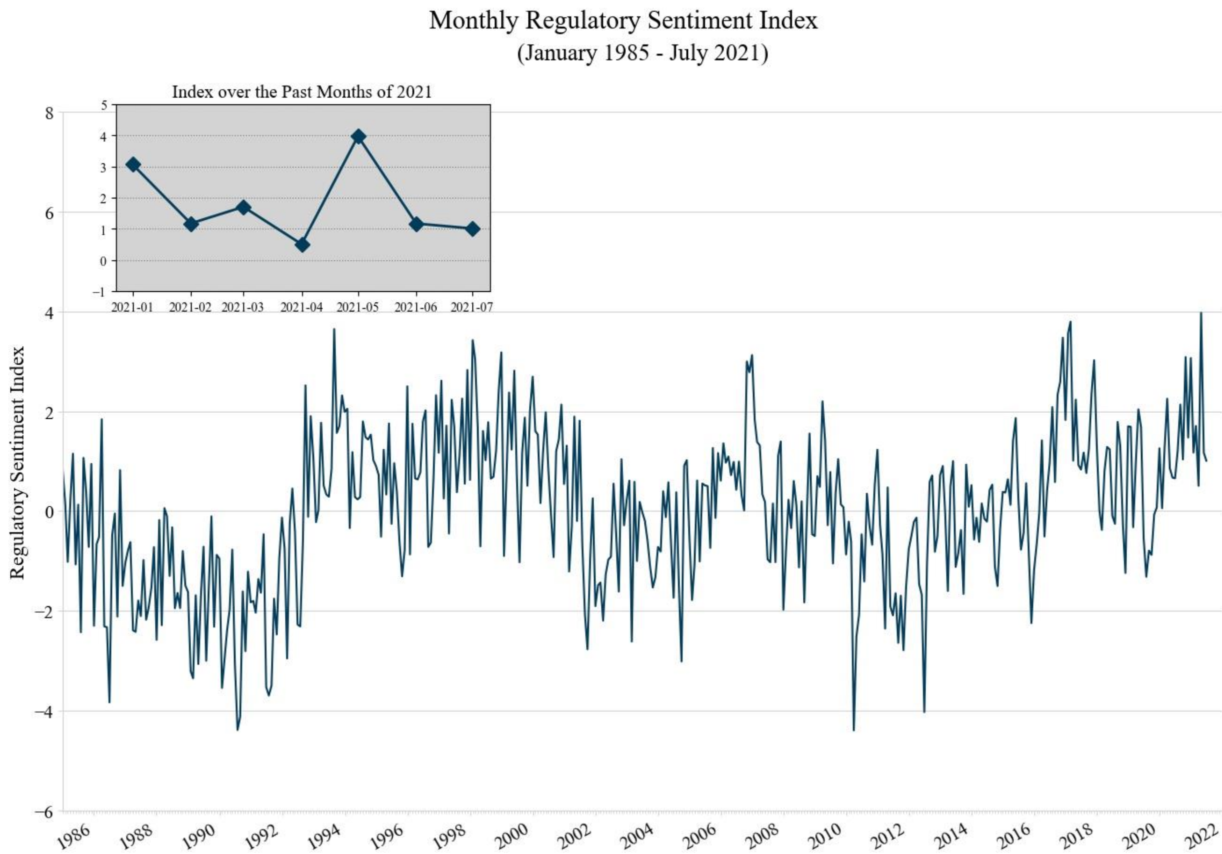
In a recent working paper, Tara Sinclair and I presented a set of text-based measures that track sentiment and uncertainty about regulation in major U.S. newspapers from January 1985 to August 2020. The regulatory sentiment index measures the positive and negative sentiment expressed in the news content related to regulation, and the regulatory uncertainty index measures the level of uncertainty in the relevant news. These monthly indexes reflect high-frequency information about subjective attitudes toward the overall regulatory environment in the U.S. Our research suggests that these subjective variables can affect aggregate economic outcomes.

Since then, we have been closely monitoring regulatory sentiment and uncertainty using the same methodology. This commentary provides a midyear review highlighting patterns in the measures during the past months of 2021.

Regulatory sentiment reached historic high

Regulatory sentiment started relatively high in January 2021, reflecting an overall positive outlook on the regulatory environment under a new administration. The news sentiment dropped after that and continued the decreasing trend until a big rebound in May. With the optimism about the effectiveness of COVID-19 vaccines and an economic recovery, regulatory sentiment reached a historically high point in May. In June and July, it returned to a level similar to earlier this year.

As detailed in our paper, Sinclair and I found that sentiment about regulation plays an important economic role, with negative news about regulation associated with large, persistent drops in future output and employment. Moreover, economic outcomes are particularly sensitive to regulatory sentiment around certain policy areas, such as transportation regulation and finance and banking regulation.

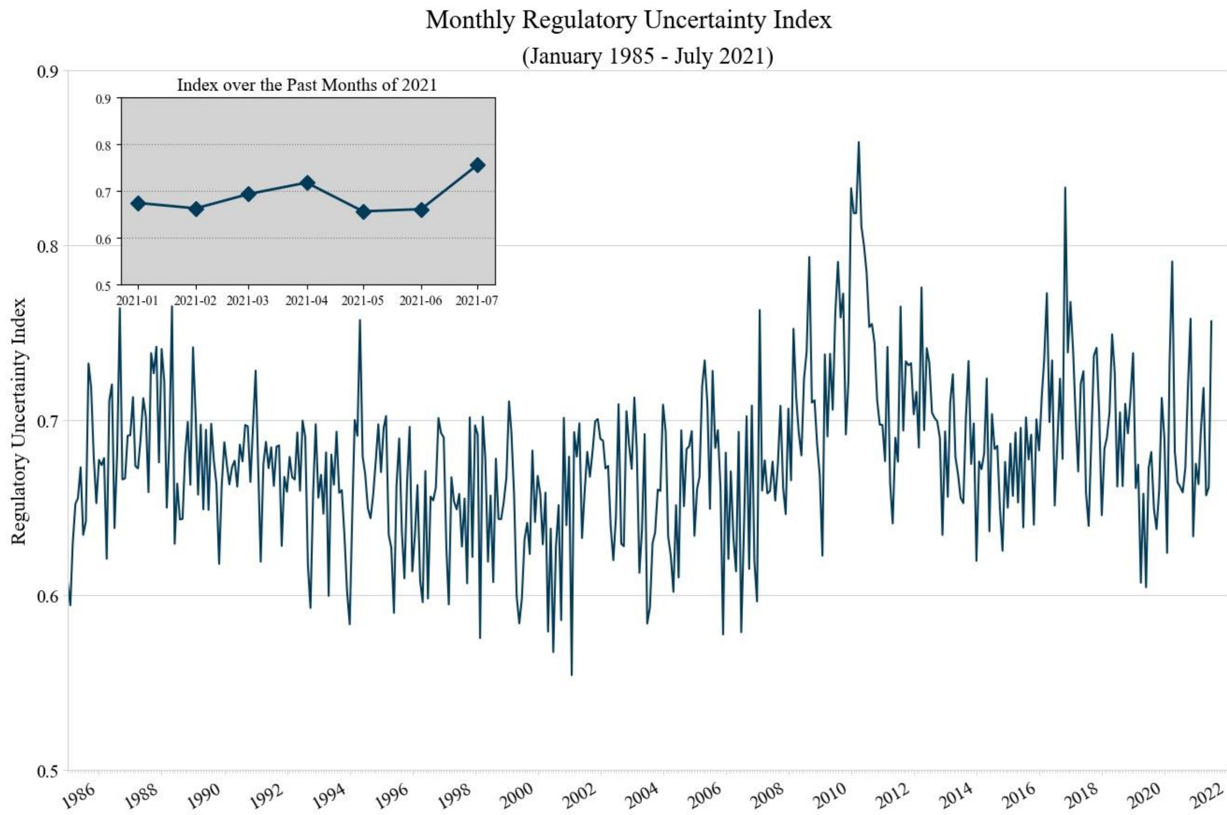


Notes: The regulatory sentiment index was estimated by applying a dictionary-based sentiment analysis approach to the news content related to regulation from seven major U.S. newspapers. For details on the methodology, refer to Sinclair and Xie (2021): https://regulatorystudies.columbian.gwu.edu/sentiment-and-uncertainty-about-regulation-0.

Regulatory uncertainty rose in July

Regulatory uncertainty was relatively flat during the first half of this year. However, it rose substantially in July, possible due to the recent rising cases of COVID-19 with the Delta variant. The increase is similar in magnitude to the last spike in regulatory uncertainty associated with the presidential election in November 2020.

Our research indicates that increased regulatory uncertainty overall reduces output and employment only temporarily, but uncertainty around certain regulatory areas such as labor regulation has prominent negative effects on economic outcomes. Moreover, regulatory uncertainty is likely to have unequal employment effects, leading to a larger and more persistent drop in employment among workers with lower levels of education.



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News-based measures can provide real-time data and high-frequency information that is valuable for understanding recent and future economic movements. To facilitate research examining the economic effects of regulatory sentiment and uncertainty, we expect to update the indexes monthly and make the data publicly available in the coming months.