Toward a Federal Regulatory Budget
The Pitfalls in Quantifying Regulatory Costs and How to Avoid Them

By Clyde Wayne Crews Jr.

How much do regulations cost? That is a very good question. Some compliance burdens aside, tabulating the subjective and indirect costs of regulations experienced both at the individual level and economy-wide is virtually impossible. Yet, try we must. Even if government collected a negligible percentage of Americans’ incomes in taxes, we would still keep track of taxation to prevent its abuse. The same applies to regulatory costs imposed on the private sector, which are far from negligible.

So where to begin? As Nobel laureate economist James M. Buchanan counseled, there are no “objectively identifiable magnitudes” available to the third-party regulator: “Cost cannot be measured by someone other than the [regulated] decision-maker because there is no way that subjective experience can be directly observed.”

Still, we do have some estimates. Recent ones include:

- An Office of Management and Budget (OMB) estimate of $68-$103 billion in annual costs for some “major” rules—those with at least $100 million in estimated annual costs;
- A $2.028 trillion annual estimate from the National Association of Manufacturers; and
- A study from the Mercatus Center at George Mason University estimates the economy “weighs” around $4 trillion less annually than it otherwise would, had regulatory burdens remained constant since 1980.
- This author’s annual survey of the federal regulatory state, Ten Thousand Commandments, which most recently estimated economy-wide regulatory costs of $1.885 trillion for 2015.

The unreliability of regulatory cost estimates may be fatal to budgeting precision, but not to the need for formal disclosures that keep cost burdens on the front burner of policy making.

Moreover, the very intractability of regulatory costs underscores the urgency for Congress to take responsibility for all regulatory actions bureaucracies impose—both the measurable and the non-measurable—and to impose processes that force hidden costs to the surface in order to assess their gravity.

Despite the growth of government in recent years, the U.S. House of Representatives’ fiscal year 2017 budgeting process showcases some potential new controls over the Washington behemoth.

On the fiscal side, in January Congress adopted a dynamic scoring rule for major legislation, which would allow tax cuts to favorably affect official federal revenue estimates by taking macroeconomic variables into account.6

On the regulatory side, the concept of a “regulatory budget” has gained new currency among lawmakers.7 The federal government can fund programs either by raising taxes, increasing the federal budget, or by borrowing, increasing the federal debt. However, the government can also “fund” policy through regulatory mandates that compel the private sector and state and local governments to bear the costs of federal initiatives. To shine a light on these costs, scattered pertinent and relevant regulatory data should be summarized and reported publicly to help create pressures for even better disclosure and reform.

The Fiscal Year 2017 Budget Resolution contained a lengthy Policy Statement on Federal Regulatory Budgeting and Reform.8 While presidents have issued fiscal budget requests that tangentially addressed regulatory issues or even explicitly encouraged the creation of a regulatory budget,9 the 2017 resolution was a distinctive marking of territory by Congress in the realm of overall budgetary planning.

The confluence of dynamic scoring and the new emphasis on the concept of regulatory budgeting may not be coincidental, but inevitable given the times. Public discussion over federal regulation’s effects on employment, output, GDP, and the federal budget’s own bottom line will become unavoidable as uncharacteristically low interest rates return to historical norms.10 In a July 2015 Joint Economic Committee hearing on dynamic scoring, former Texas Sen. Phil Gramm remarked: “[D]ynamic scoring is not just about taxes. It is about spending. It is about policy. It is about regulation.”11 [Emphasis added]

Annual federal spending is set to soon surpass $4 trillion, adding to a mounting national debt that threatens to become unserviceable as discretionary spending cuts and entitlement reforms remain controversial and remote. Mounting interest on the debt can overwhelm yearly spending, leaving economic liberalization as the only remaining option to spur economic growth and employment. Thus, we may soon see renewed bipartisan concern over regulatory overreach and greater interest in economic liberalization.12 This seems to happen about once a generation when the political stars align.13

The Competitive Enterprise Institute’s annual survey of the federal regulatory enterprise, Ten Thousand Commandments, attempts to estimate the overall costs of rules using the best available data. But more and better tool are still needed. A functioning regulatory budget would make government’s reach more visible to lawmakers and the public. Further, it would incentivize lawmakers to a) limit what agencies may compel the private sector to spend on regulatory compliance and b) set the stage for minimizing indirect losses arising from regulatory interventions.
The concept of a regulatory budget is neither new nor partisan. For example former Democratic Texas Sen. Lloyd Bentsen proposed an “annual regulatory budget” in 1979. Regulatory budgeting was also considered as a reform option in President Jimmy Carter’s 1980 Economic Report of the President. Recent legislative offerings include Sen. Marco Rubio’s (R-Fla.) National Regulatory Budget and Sen. Mike Lee’s (R-Utah) Article I Regulatory Budget Act. Most recently, the June 2016 House Task Force on Reducing Regulatory Burdens released a series of recommendations for economic liberalization and growth with a regulatory budget among them.

Such proposals are welcome, but it is important to appreciate the informational limitations in creating a regulatory budget. The effort poses some risks, and a poorly executed one would be worse than leaving things alone. For starters, agencies tend to emphasize benefits and lowball costs. The Heritage Foundation’s James Gattuso raises some valid concerns about budgeting efforts set on autopilot and paired with slippery calculations. He observes:

Members [of Congress] certainly don’t abide by the fiscal budget now. And it is hard to imagine lawmakers declining to authorize a new rule that regulators say would save lives at little cost, based only on—ultimately artificial—budget allocations.

A regulatory budget is best suited to a constitutional republic rooted in limited government principles and congressional accountability, rather than an administrative state that operates largely without supervision. But the unfortunate reality that we could not “keep the republic,” as Benjamin Franklin warned, is not entirely fatal to the idea of regulatory budgeting as a liberating device from the modern regulatory Leviathan. Cautious experiments within a broader rubric of total congressional accountability for both agencies’ regulations and informal “guidance” are urgently needed and should be undertaken post haste. As noted, there are pitfalls. Following are some key ones to avoid.

**Hazard 1: Expansion of Government.** The most elemental risk in devising a regulatory budget was suggested by Christopher C. DeMuth, who served as administrator of OMB’s Office of Information and Regulatory Affairs during President Reagan’s first term. DeMuth wrote a defense of cost budgeting concepts in 1980, but cautioned that a regulatory budget could potentially bring more of the economy’s private expenditures under government’s purview by incorporating them into the workings of a “formal public budget,” such that “it might come to seem equally appropriate to treat them as public expenditures, with consequences that are difficult to foresee.” He therefore warned: “It is worth pondering at length before we invest too much effort in the details of implementation.”

This is crucial. There is a risk, in both perception and reality, of effectively conceding legitimacy of government oversight over vast swaths of the economy as a matter of default, and at a time when the federal government already dominates 20 percent of the economy via taxing, borrowing, and spending.

Philosophies of limited government reject federal management of the economy. But when government grows large and unconstrained, not being subject to regulation comes to be regarded as government favor. Taxation offers a direct analogy. The federal government implicitly regards all income as belonging to it. Amounts that individuals and businesses are
allowed to deduct from taxable income are referred to officially as “tax expenditures.” Tax breaks in effect get classified as losses to the federal Treasury. Therefore, the risk that exemption from regulation could come to be perceived in future policy debates as a government favor is not remote. A regulatory budget must expose and control government’s intervention in the economy, not perversely aggravate over-delegation to unelected regulatory agency personnel, the very circumstance it is intended to remedy.

**Hazard 2: Elevation of Utilitarianism over Individual Rights.** Although critics contend cost-benefit analysis trades lives for dollars, tradeoffs in the public sphere are, as attorney Malcom Wheeler notes, “a necessity logically compelled by the decision-making process.” Implicit cost-benefit inferences are inherent in the act of deciding what to regulate—or not. The solution is to acknowledge that most matters are not public policy questions at all, but we are well beyond that limited government view today, when the federal government heavily steers sectors such as energy and environmental policy, transportation, health care, finance, communications and the Internet, and privacy.

Moreover, some deeper problems of cost-benefit analysis are rarely acknowledged in policy debates. Pretending to “balance” societal costs with societal benefits can descend into a utilitarian “greatest good for the greatest number” formulation that dispenses with protection of individual rights and property rights, particularly in the absence of compensation for those expected to bear the costs. Costs consist of more than dollars. They involve time lost and roads not taken, loss of liberties, and lost opportunities discernible only to the individual experiencing them. These are not quantifiable. A regulatory budget that incorporates net benefits could potentially green-light unbounded government growth, since every agency argues nearly every rule they produce confers net benefits. There are real, social costs to overregulation, not just the lack of it.

The utilitarianism concern is potentially resolved by a regulatory budget that levies only cost calculation duties on agencies, relieving them of conducting benefit assessments. Such questions are the domain of Congress, which presumably surveys the benefits landscape before making regulatory law in the first place. Just as Congress must evaluate whether the benefits of direct spending are worthwhile, it is Congress’ job, as the people’s elected representatives, to decide whether the indirect costs of regulation are worthwhile. Congress is accountable to the electorate in a way agencies can never be.

If treated properly as an information gathering, reporting, and control instrument, a regulatory cost budget could greatly improve upon inadequate existing cost-benefit practices by making Congress more accountable for the cost of rules that result from its delegating to agencies. The underlying solution to regulatory overreach is to limit executive power to constitutional bounds by reining in over-delegation. When unaccountable, regulators and the inevitable cronyism of a mixed economy prevail, we get the greatest good for only a few, underscoring the need for accountability.

**Hazard 3: Impossibility of Measuring Costs.** As noted, costs cannot be measured with precision, a difficulty that was recognized by early proponents of regulatory budgeting.
For example, the George H.W. Bush administration endorsed a regulatory budget, but the Office of Management and Budget highlighted the following potential difficulties:27

- A regulatory budget can create confusion about conflicting cost estimates because agencies would have powerful incentives to understate costs to avoid depleting an imposed budget. Regulated parties have incentives to overstate for the opposite reason. The deeper problem is the fundamental subjectivity of costs.
- A budget cannot isolate which private sector expenditures result from regulation and which would have been made anyway.
- A budget must cope with indirect costs. OMB argued that incorporating only direct costs in a regulatory budget would create a bias toward banning, rather than regulating or controlling products to avoid having costs appear in the budget. Likewise, as the Heritage Foundation's Gattuso emphasized, “rules with real but intangible costs—such as violations of religious liberty—would actually be free to regulators.”28

Apart from intangible costs, OMB believed these difficulties could be overcome, and argued that cost estimates need only be “unbiased and defensible.”29 Besides, cost-benefit analysis as currently conducted is beleaguered with the same problems to much greater extent, since the benefit side of the equation is exploited to justify rulemaking.30 Furthermore only a handful of agency rules have cost-benefit analyses that get reviewed by OMB anyway.31

Regulatory intervention can create unseen costs in the form of forgone opportunities for entrepreneurship and wealth creation. Flying cars were nipped in the bud by auto safety regulations.32 A merger of Blockbuster and Hollywood Video might have given the combined firm a chance to compete against Netflix and Redbox; it was derailed and both companies folded.33 Immunity and regulation from the Price-Anderson Act preempted market provision—and discipline—in liability insurance markets for nuclear power generation, which made the technology’s actual viability far more difficult to discern.

Determining which costs are due to regulation and which would have been borne anyway is also challenging. Former OMB official John Morrall did not regard this as a significant problem, particularly with incremental budgeting, noting that, “the amount of workplace safety that firms provide is not likely to change much from one year to the next in the absence of new regulations.”34 Morrall noted several pertinent parallels to fiscal budgeting:

> These practical problems [of cost measurement], however, are not insurmountable and mainly differ in degree from their fiscal analogue. For example … the spending forecasts for fiscal budgets do not have to be perfectly accurate for the fiscal budget process to be effective in controlling spending. As long as they are not systematically underestimated, projected cost ceilings serve as a constraint. Likewise the spending forecasts for regulatory budgets do not necessarily have to be accurate for the regulatory budget process to act as a constraining device for regulatory spending. Auditing costs for the regulatory budget can be kept to a minimum since all
that is needed is *ex post* evaluations of a sample of situations in order to improve economic forecasting models.\textsuperscript{35}

Coping with indirect regulatory costs presents thornier problems than direct costs. But as long as preemptive regulation is the order of the day, one could do worse than rough cost estimates that help inform oversight decisions by Congress, which delegates regulatory authority in the first place. Taking the analogy with spending further, former Treasury and OMB official J. T. Young noted that the Budget Act of 1974 and the Congressional Budget Office, “both have become invaluable.”

We would find it unthinkable in fiscal policy today to increase spending or taxes with no means of measuring costs. Yet that is effectively standard regulatory procedure now, because there is no binding constraint on passing these costs to the private sector.\textsuperscript{36}

Calculation precision is secondary to requiring agencies to operate in an environment of congressional oversight. The ultimate objective must be for Congress to vote, even in expedited fashion, before any costly or controversial agency regulation can take effect. Within that framework for regulatory budgeting, even if we do not know what costs are, we have elected officials who can be held accountable.

**Hazard 4: Temptation to Include Benefits.** As noted, an ongoing threat to regulatory budgeting will be the insistence of agencies to include benefits in their budget calculations, and to use those benefits to offset costs under a budget cap. Yet, benefits do not always lend themselves to measurement by a third party, and abuse will result from the reality that persons enjoying the benefits of regulations and persons paying for those benefits are not always the same people. For example, wetlands and endangered species regulations, which are allegedly intended to benefit all of society, impose costs almost entirely on property owners on whose land wetlands or a protected species may be present.

Given high estimates by an interagency working group on the “social cost of carbon,”\textsuperscript{37} broad claims of benefits from emissions regulations are at hand. Similar expansive claims for benefits will emerge from a speculative social cost of methane “guesstimate.”\textsuperscript{38} Other vague or suspect benefits touted by federal regulators include the “co-benefits” of alleged particulate matter reductions stemming from mercury regulations (without concern for “co-costs”),\textsuperscript{39} and the use of linear risk models that assume harm directly proportional to dose in environmental and radiation exposures.\textsuperscript{40} The belief that every increment of pollution reduction is equally beneficial to prior reductions has no basis in science, yet agencies often act as though it does.

Including benefits defeats a regulatory budget’s purpose. When the costs of a rule that purportedly benefits society in general are imposed on a few political losers, biases toward excessive regulation emerge. From the standpoint of lawmakers, regulation is cheap relative to policies that require on-budget spending. That in turn, induces them to “buy” too much.
A regulatory budget will not help rein in government growth if it condones agency efforts to carry out regulatory wealth transfers by emphasizing benefits. Congress should set the cost budget constraint based on the potential benefits an agency provides, leaving it up to agencies to maximize benefits within that constraint. Net-benefit approaches give agencies, special interests, and even individuals incentives to give undue value to an ineffective regulation. With costs imposed on others, agencies have nothing directly at stake and face no opportunity costs.

Even benefits of federal fiscal budgetary activities are difficult to compare. For example, how does one trade off benefits of federal outlays on infrastructure versus welfare? Such ambiguities would become greatly magnified in a regulatory budget regime that left benefit assessments up to agency whim, since those who gain from regulation have ample incentive to oblige others to shoulder costs. If costs are subjective, benefits are slippery in the extreme. If agencies offset costs of their regulations with self-proclaimed benefits, rarely will any regulation fail the test. Benefits are for the elected Congress to calculate, even if implicitly.

**Hazard 5: Agency Complaints that “Cutting Our Budget Costs Lives!”** By shedding light on the costs of agency-issued rules, regulatory budgeting can improve congressional oversight and counter agency overreach. But as night follows day, agencies threatened with an impending budget cut or a transfer of allowance to another agency will argue that cutting their budget will cost lives. So ensuring that Congress curbs an agency’s regulatory authority when the facts warrant it is a big problem. Is it insurmountable? Perhaps not.

Just as federal spending continues up to the end of a fiscal year, under a regulatory budget, no one will be surprised when agencies regulate until their budget is exhausted, at which point they all appeal for more. A barrage of such grievances could lead policy makers to increase the universal regulatory budget ceiling rather than strip an agency of a portion of its budget and transfer the authority elsewhere or lower the overall budget. The risk that the overall regulatory budget will spiral perpetually upward is significant and worrisome. As the recent government-shutdown episodes show, Congress has a tough time with cutbacks when placed in the media spotlight, a situation made worse by the lack of a robust defense of free enterprise and the vital role of markets in regulatory discipline that is all too prevalent inside the Beltway.

Where agencies can demonstrate they can produce greater outcomes within the budget constraint compared to rival agencies, Congress should transfer to them the relevant authority. There will remain a risk, however, that agencies and ideological advocacy groups will place constant pressure on Congress to increase the overall budget. Still, unlike today, Congress will have to explicitly approve such budget increases.

**Conclusion: Add It Up.** In today’s overreaching administrative state, regulatory burdens increase while benefits grow more ambiguous. Instead, it is the out-of-control regulatory system itself that needs to be regulated. But we lack any bipartisan “unified theory” for doing so. Yet, as the American economy remains idle, circumstances may force spenders and regulators to back down.
Regulatory liberalization, as opposed to tinkering, will require an unprecedented relinquishing of power by agencies and legislators. With or without a quantitative regulatory budget, effective regulatory reforms must ultimately come through institutional changes that tightly specify the purpose and reach of delegated regulatory power, and of legislative power itself. Once such control is established, a budget can help keep the regulatory state in check, serving the public rather than bureaucratic and special interests.

Policy makers, scholars, and other observers already rely on the few government estimates of regulatory costs that exist, such as OMB’s annual Report to Congress on the Benefits and Costs of Federal Regulations and the Government Accountability Office’s reports to Congress in compliance with the Congressional Accountability Act. If disclosure improves on those, and incorporates so-called guidance documents, the information will inevitably become an important part of the policy landscape. As of today, we could do far worse than allocating regulatory authority among agencies in accordance to where an accountable Congress believes benefits lie.

Notes


21 DeMuth later was president of the American Enterprise Institute and is now a fellow with the Hudson Institute.


23 Ibid.


28 Gattuso.

29 OMB, 1992, p. 400.


41 Archived at OIRA Reports to Congress, Office of Management and Budget, https://www.whitehouse.gov/omb/inforeg_regpol_reports_congress/.