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The Private Sector Costs of the Regulators’ Budget

Regulatory Policy Commentary

December 19, 2011

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There has been much heated debate in Washington lately over the effect that regulations have on the US economy. A recent [Gallup survey](#) found that “Small-business owners in the United States are most likely to say complying with government regulations (22%) is the most important problem facing them today.” On the other hand, [Administration officials](#) argue that economic and industry data do not support the view that regulations are hurting growth or job creation.

Gathering hard evidence to support either side of this argument is difficult. Attempts to measure regulatory activity over time have relied on proxies such as number of rules, pages in the Code of Federal Regulations, and budgets of regulatory agencies. But inevitably, none of these measures is perfect. For this reason and others, demonstrating a relationship – particularly a causal one – between government regulation and macroeconomic growth indicators is a challenge.

One recent, widely-cited [policy bulletin from the Phoenix Center](#) attempts to do just that. Using regulatory agency budgets as its proxy measure for regulation, this empirical study finds regulation extremely costly to the private sector and suggests that “eliminating the job of a single regulator grows the American economy by \$6.2 million and nearly 100 private sector jobs annually.”¹ Not surprisingly, these dramatic findings have caught the attention of people concerned about overly burdensome regulation, and have been cited in a [blog by House Majority Leader Eric Cantor](#) and a [Statement of Judiciary Committee Chairman Lamar Smith](#). But are these figures really valid?

In a report we are preparing for the [GW Regulatory Study Center](#), we explore the sensitivity of these estimates of regulation’s impact on the US economy. In contrast to the report by the Phoenix Center, our analysis finds that the statistical methods available do not provide evidence of a definitive negative relationship between regulatory agency budgets and staffing and the economy at a macro level, either in terms of private sector employment or GDP.

Our study follows a similar approach to the one used by the Phoenix Center. What we find is that the results depend critically on the researchers’ choices with respect to data measures and model specification. In most alternative (and in our view, preferred) specifications to the one

¹ Phoenix Center Policy Bulletin No. 28, April, 2011, by T. Randolph Beard, George S. Ford, Hyeongwoo Kim, and Lawrence J. Spiwak. Available at <http://phoenix-center.org/PolicyBulletin/PCPB28Final.pdf>

employed by the Phoenix Center, the impact of a decrease in the [Regulators' Budget](#)² on private sector employment or GDP is not statistically significant. Furthermore, in many specifications, the estimates actually suggest a positive (though not statistically significant) relationship, such that increasing the Regulators' Budget is associated, if anything, with an increase in real private sector GDP, rather than the decrease found in the Phoenix Center study.

In our preferred model, we examine the joint relationships between growth in the Regulators' Budget, growth in real private sector GDP, and growth in private sector employment.³ We find that a 5% reduction in the Regulators' Budget is associated with a 0.14% *decrease* in private employment and a 0.28% *decrease* in real private sector GDP. Statistically, however, these impacts on both employment and GDP are indistinguishable from no effect.

Thus, our own findings suggest that the macroeconomic effect of regulatory agencies' budgets appears to be undetectable using the data and statistical methods available.

Look for our full report on this issue in early 2012!

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² Based on data from: "Fiscal Stalemate Reflected in Regulators' Budget: An Analysis of the U.S. Budget for Fiscal Years 2011 and 2012" By Susan Dudley & Melinda Warren, 2012 Annual Report, May 11, 2011, Regulators' Budget Report 33. Available at http://regulatorystudies.gwu.edu/images/pdf/2012_regulators_budget.pdf

³ This model differs from the Phoenix Center study's model, which uses the regulators' budget *as a share of GDP* and private sector GDP *per capita* as its variables, along with private sector employment. We prefer our model because unlike the one used by the Phoenix Center, ours does not require holding private GDP constant for one variable (regulators' budget as a share of GDP) while allowing it to simultaneously vary per capita.