The High Cost of Regulations Hw #7

By Jack Kelly - July 13, 2014

From 1820 through 2000, the inflation-adjusted gross domestic product grew at an average annual rate of 3.6 percent. Since 2000, real GDP has grown at half that rate (2.125 percent a year during the Bush administration, 1.24 percent during Barack Obama’s presidency).

If our economy were growing in the 21st century at the same rate as in the 19th and 20th, our GDP would be $5 trillion larger, millions more would have jobs, family incomes would be 30 percent higher.

“There is nothing that the federal government could possibly do for the middle class (or any other class, for that matter) that having 30 percent more income would not do much, much better,” said Louis Woodhill, who writes about economics for Forbes magazine.

It’s creation of additional wealth, not redistribution of existing wealth, that lifts people out of poverty. The gap between rich and poor is wider, and growing faster, in states like California and Illinois where redistribution is emphasized, than in states like Florida and South Dakota, where it isn’t, according to a study by MoneyRates.com.

Additional tax revenues generated by economic growth reduce deficits more than tax rate hikes or spending cuts. Rising wealth and new technologies protect the environment better than government regulations do.

Many things government does affect wealth creation.

Expanding or contracting the money supply can light a fire, or tamp one down.

Spending can spur growth, but wasteful spending and too much debt exert drag.

Growth tends to be higher when taxes are lower; the kinds of taxes imposed may matter more than how much we pay.

But monetary policy, spending and taxes combined may not have affected the rate of economic growth as much as has the explosive growth in the number and scope of federal regulations.

There were 138,049 pages in the Code of Federal Regulations when the 21st century began, 175,496 at the end of 2013. Pages were added at a rate of 2,490 a year during the Bush administration, 3,504 during each of the first five years of the Obama administration.

This is a crude measure, because the length of a rule as printed in the CFR often bears little relationship to its effect on the economy. But the growth has been startling. There were just 19,335 pages in the CFR in 1949; 22,877 in 1960; 71,224 in 1975.

The 5,262 pages added to the CFR in 2012 were more than were added during the Truman, Eisenhower and Kennedy administrations combined.

The annual cost to comply with federal regulations was $1.75 trillion in 2010, according to a Small Business Administration study. It was $1.9 trillion last year, estimates the Competitive Enterprise Institute.

Because it is disguised in higher prices, fewer jobs and lower salaries, few of us realize federal regulations cost us about as much as we pay in federal income taxes and payroll taxes.

Were it not for the drag imposed by regulations adopted since 1949, GDP in 2011 would have been more than three times larger, estimate economists John Dawson and John Seater. Median household income would have soared.

New regulations in 2012 added about $236 billion to the economy’s burden, estimated the American Action Forum. A rule the EPA proposed this year to restrict CO2 emissions would raise the price of energy and reduce household disposable income by $586 billion over the next 16 years, the U.S. Chamber of Commerce estimates.

In the first quarter this year, the economy shrank at an annual rate of minus 2.9 percent. It was the weather, the White House said. More likely it was mostly because of Obamacare, given data from the Bureau of Economic Analysis. Just before the Fourth of July, the Department of Health and Human Services published 1,296 pages of additional regulations.

Some regulations are essential to protect the health and safety of consumers and workers, to guard against fraud, to protect the environment. But nearly all of those were issued long ago.

Can you think of any regulations issued since 2000 so necessary that they justify cutting economic growth in half? Have any imposed since 1949 been of more benefit to your family than an additional tens of thousands of dollars in annual income would have been?

Congress should suspend, pending review, all federal regulations imposed since 2000. Those found necessary should be tweaked to reduce their economic impact. Those which do more harm than good should be repealed.

Then Congress should abolish agencies whose rules have done more harm than good.