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## Pricey regulatory tab

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How much lower is your real income because of excessive regulation? And how much higher is unemployment because of too much regulation?

Economists have been trying to answer these questions for the last several decades. Great strides have been made, and now Steve Entin, former Treasury official and president of the Institute for Research in the Economics of Taxation (IRET), is providing us an even more complete answer.

To understand the complexity of regulation costs, start with the basics. If you ask an elected or government official how much regulation costs, you will likely be told the budget of the specific departments that produce regulations. If you ask a businessman the same question, he will probably cite the additional equipment required and all the extra workers needed to comply with the regulations -- plus the materials, office space, communications services, and employee health and vacation benefits for those employees.

A more sophisticated business person might also say the regulatory costs for his particular business are not just those of equipment and employees, but the additional legal and accounting work needed to comply with the rules (often vague and subject to various interpretations). In addition, the business person might note these added costs must be passed on to the customers through higher prices.

These higher prices mean less demand for the product, which in turn means lower business profits. Hence fewer workers will be hired and wages for the work force will be lower along with stockholders' profits.

The additional costs to the business will mostly be tax-deductible. That, in turn, means less tax revenue for federal, state and local government. This loss in tax revenue means other taxes need to be higher to provide the same level of government service. If other taxes are higher, real incomes for the taxpayers will be lower, hence less taxpayer demand for the goods and services and less saving -- which means less money for capital investment. This real, lower taxpayer income will also be seen in the creation of fewer new jobs and the slowing of technological progress and productivity growth.

If your head is beginning to swim because of all this complexity, you begin to understand the problem.

Now, let's add the international sector. If businesses are more heavily regulated in the United States than elsewhere, the additional costs will make them less competitive. Hence jobs will flow from the U.S. to more competitive countries.

A couple of years back, Congress passed the Sarbanes-Oxley bill to "improve corporate governance." The bill cost companies listed on U.S. stock exchanges enormously, so many have now de-listed (i.e., by going private) or are moving to foreign stock exchanges.

These regulatory cots have cut jobs and investment. Yet no one has been able to provide proof of any benefits.

Much of the anti-money laundering regulation in recent years also meant major cost increases for financial institutions and a rise in the unbanked poor. Yet again there is no sound evidence of benefits to justify all the new costs.

Politicians and government bureaucrats love to propose and enact new regulations under the guise of "making things better," but they rarely talk about, let alone give out, the new regulations' full costs.

Without a full and complete measurement of all the costs and benefits of a particular regulation, we can't know if the particular rule will make us better or worse off.

To help improve our knowledge, Mr. Entin and his colleagues are developing a measure of complete regulatory costs by viewing regulation as "tax" and applying some more advanced economic modeling used to measure full costs of various taxes.

With its full costs unmeasured, the growing regulatory monster is slowly strangling economic growth and eroding our liberties. And this is a global problem. Individuals, businesses and foundations can all help to mitigate this problem by supporting the very good work now under way -- at IRET, the Heritage Foundation, the Cato Institute, the Competitive Enterprise Institute, AEI, and other think tanks -- to provide better ways to analyze costs vs. benefits.

To help restore checks and balances needed to contain destructive regulation, citizens should demand that federal, state, and local officials pass laws allowing citizens to sue government departments for regulations that fail to meet a reasonable cost-benefit test.

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