The claim that American households have a $15,000 regulatory 'burden'

By Glenn Kessler January 14, 2015

"That [regulatory] burden adds up to $15,000 per American household, nearly thirty percent of average household income in 2013."

–Rep. Bob Goodlatte (R-Va.), introducing the Regulatory Accountability Act, Jan. 7, 2015

"A recent study suggests every family has a burden of close to $15,000 every year due to regulation. And the total cost to our economy exceeds $1.8 trillion due to regulation."

–Rep. Lynn Jenkins (R-Kan.), during a news conference, Jan. 13, 2015

When the same talking point starts echoing through the halls of Congress, The Fact Checker's antenna goes up. There's usually some think tank that has produced a report that, conveniently, comes up with a sound-bite that will grease the wheels of publicity for a particular legislative initiative.

Where does this $15,000 statistic come from?

The Facts

The factoid comes from an annual report, Ten Thousand Commandments, put out by the Competitive Enterprise Institute, a free-market group founded in 1984 to combat what it considered excessive government regulation. So already you have to take the analysis with a large grain of salt. Indeed, the report is billed as "An Annual Snapshot of the Federal Regulatory State."

The $15,000 is derived from an estimate that regulations cost at least $1.8 trillion a year, the figure cited by Rep. Jenkins. (This number is calculated in a CEI working paper titled "The Tip of the Costberg.") Then $1.8 trillion is simply divided by the number of American households. Presto, each household "pays" $14,974 annually in a hidden regulatory tax.

Those aren't our quotation marks around "pays." That's exactly how it appears in the report. The word "spent" also appears in quotation marks when the report tries to argue that "more is 'spent' on embedded regulation than on health care, food, transportation, entertainment, apparel and services, and savings. Embedded regulatory costs can be said to absorb up to 29 percent of the typical household's expenditure budget."

The report admits this number is "not scientific," but says "the comparison is a useful back-of-the-envelope way of reflecting on the magnitude of regulatory costs."

But there is one huge element missing—the benefit side of the analysis. The report concedes that the $1.8 trillion figure purposely does not subtract any potential benefits from regulations. But that's unbalanced. Every regulations has costs—but also benefits.

Look at cars, for example. Seat belts are a regulation, but they also result in fewer deaths, which is presumably a benefit. Higher fuel-economy standards raise the initial cost of a car, but also result in savings on gasoline over time. (Note: We have previously

faulted President Obama for touting the benefits of fuel-economy standards, without mentioning the costs.)
It could well be that the costs exceed the benefits (though the annual Office of Management and Budget annual report on the issue frequently shows benefits far exceeding costs) but it seems to make little sense to completely ignore the cost side of the ledger. The "Costberg" report makes impassioned defense of the need not to consider benefits, but also, somewhat tongue in cheek, admits its tally consists of "apples and oranges," "haphazard distinction between consumer and employer impacts," "old data sets" and the like.
In other words, the number is simply an idiosyncratic guesstimate.

Annie Dwyer, a CEI spokeswoman, pointed out that the $1.8 trillion is similar to a $1.7 trillion estimate made by a study for the Small Business Administration and a $2 trillion estimate made by National Association of Manufacturers. Four years ago, The Fact Checker had looked at the SBA study, and both the SBA study and the NAM study have the same limitation of looking only at the cost side of the ledger. (The NAM study, however, appears to have a more sophisticated effort at trying to estimate the impacts of regulations on various sizes of businesses, rather than a broad-brush per-household figure.)
Dwyer said "it was a good question to ask" about the benefits, but insisted it was a complex undertaking and not enough information is available. "We are not saying that someone should not do the same analysis for benefits," she said. "CEI would support more cost-benefits analysis." (OMB, in its congressionally mandated report, focuses on major regulations over a 10-year period; it does not consider rules issued by independent agencies which, after all, are not bound by administration policy.)

Dwyer added that the CEI report was not suggesting that the $15,000 figure was direct cost that families had to pay. “CEI does not say households actually pay this much money out of pocket – that’s why the word is in quotation marks (‘pay’) – because regulatory costs are embedded and spread across the economy,” she said. “We’re trying to explain a really complicated topic.”

The Pinocchio Test

When we had looked at SBA figure of $1.7 trillion back in 2011, we noted that Thomas Donohue, president of the U.S. Chamber of Commerce, added this useful caveat when he cited it: “*Now, look, many of these rules we need, they’re important for the economy, and we support them.”* In other words, he conceded that there were indeed benefits to the regulations and that such benefits need to be acknowledged.

The $15,000 figure has serious methodological problems — even the report admits it is “not scientific” and “back of the envelope” — and we fear these caveats are being forgotten as it is repeated in Capitol Hill news conferences and then in news reports.

In blindly citing the $15,000 figure as a “burden,’ without realizing its limitations or even admitting that there are indeed benefits that might offset at least some of the costs, lawmakers are making a misleading statement worthy of at least Two Pinocchios. These talking points are incomplete without a Donohue-like caveat.