Recent commentary on our Regulatory Studies Center Working Paper, “Regulation, Jobs, and Economic Growth: An Empirical Analysis” made the valid point that inclusion of a time trend in our estimates would improve the robustness of our model. Thus in this commentary, we update our preferred model to include an exogenous time trend. The impulse response functions after including a time trend in the model are presented in Figure 1 on the following page.¹ As the Phoenix Center for Advanced Legal and Economic Public Policy Studies Policy Perspective No. 12-01, “Regulatory Expenditures, Economic Growth and Jobs: A Reply to Comments,” claimed, this does result in a negative point estimate for the impact of an increase in the Regulators’ Budget on private employment and, for some periods, private GDP. However, based on the traditional two standard deviation confidence intervals we report here, none of the estimates are statistically significantly different from zero. This finding is consistent with the overall conclusions of our Regulatory Policy Commentary and our Working Paper.

We must emphasize that this finding of statistical insignificance does not in any way imply that regulations do not affect the economy. Government regulations have real economic costs, as well as benefits, which affect the decisions and resources of firms and individuals in complex ways. This is why it is so important to quantify, as completely and accurately as possible, the effects of regulations at an individual level to evaluate their economic and distributional impacts. Our analysis only examined average macroeconomic impacts of one proxy for government regulation – the budgets of federal regulatory agencies. In our working paper (p. 10), we offer several possible explanations for why it is so difficult to discern a causal relationship at an aggregate level between macroeconomic performance indicators and this proxy for regulatory activity.

Furthermore, our findings do not “minimize the relevance of” the Regulators’ Budget data. The data provide useful information on regulatory agency spending trends in a number of social and economic areas, lending insight into changing political and social priorities over time. Moreover, in this current fiscal environment, public policymakers may increasingly turn to regulation to achieve social goals that might otherwise be pursued through direct spending programs or tax policy. Tracking Regulators’ Budget data can also help monitor whether this is the case as well.

Finally, regarding the inclusion of the Transportation Security Administration (TSA), the Regulators’ Budget is reported both with and without TSA spending, largely because it is by far the largest driver of regulatory agency spending growth in the last decade and can thus skew the data. The TSA regulates behavior in different ways than other agencies (inspecting passengers before travel), thus we considered both inclusion and exclusion of TSA in our working paper and found no difference in our conclusions at the macro level.

In summary, after adjusting for the exogenous time trend as suggested by the Phoenix Center we do find a negative point estimate for the impact of a shock to the Regulators’ Budget on private employment, but

¹ For a discussion of the model and the estimation of the model and construction of the impulse response functions, see our March 2012 working paper. These figures replace Figure 7 in the working paper by adding an exogenous time trend to the model.
this impact is statistically indistinguishable from zero. This is consistent with our previous commentary, which concludes, “the macroeconomic effect of regulatory agencies’ budgets appears to be undetectable using the data and statistical methods available.”

Figure 1
Accumulated Response to Cholesky One S.D. Innovations ± 2 S.E. Including Exogenous Time Trend

Accumulated Response of Private Real GDP to Regulators’ Budget Growth

Accumulated Response of Private Employment to Regulators’ Budget Growth

* Tara M. Sinclair, Ph.D., is Associate Professor of Economics and International Affairs at The George Washington University, as well as a Scholar at the GW Regulatory Studies Center. Kathryn Vesey is Research Associate at the GW Regulatory Studies Center, as well as a Master of Public Policy Candidate at The Trachtenberg School of Public Policy and Public Administration.