



New Program to Measure Regulatory Waste

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The American Consumer Institute Center for Citizen Research

THE LOST ECONOMY™

Across the U.S., various business projects are being delayed or cancelled due to significant regulatory impediments, including entry barriers, inefficient and lengthy review processes, discriminatory fees, and onerous permitting requirements. These impediments can substantially hinder opportunities for private enterprise to invest and compete, which can reduce economic output, impede private investment, slow job creation and raise consumer prices.¹ These impediments contribute to a stagnating economy, which has been a \$2 trillion drag on the U.S. economy²

To understand the extent of the problem, The American Consumer Institute (ACI) is measuring these costs by establishing a new program called The Lost Economy™. The program will quantify the opportunity costs associated with stalled and blocked projects, as well as economic losses associated with general regulations and taxes.

Using analyses by economic scholars, the program will investigate and calculate the multiplier effects contributing to lost Gross Domestic Product (GDP), employment earnings and jobs resulting onerous regulatory effects. Lost too is consumer prosperity and consumer welfare. However, unlike political promises of “shovel-ready” projects, these potential projects, if approved, would often not cost taxpayers a dime, but their impact could be just as significant a stimulus for the economy.



¹ Clyde Wayne Crews, “Ten Thousand Commandments: 2017,” Competitive Enterprise Institute, 2017, at <https://cei.org/10kc2017>.

² “Obama’s Economic Recovery is Now \$2.2 Trillion Below Average,” Investor’s Business Daily, July 29, 2016.

PURPOSE OF THE PROGRAM

This program will analyze projects where private investors and developers are prepared to fund, build, and operate business activity that could materially increase GDP and create many well-paying jobs. However, if facing major regulatory obstacles, these investments may only come to fruition if policymakers take the steps needed to streamline and to improve existing regulatory processes so that projects can be given a fair opportunity to secure final approval based on the soundness of the project, and not on the ability to withstand a tortured and expensive approval process.

Potentially, these projects offer substantial economic opportunities, but these opportunities can only be realized if they are reviewed and evaluated in an efficient, effective, and timely manner. Absent policy action aimed at constructive reforms to the regulatory processes, there is substantial risk that economic progress and opportunity will continue to be denied for millions of American consumers and workers.

This program's will analyze topics across all industries and consumer markets, and our results will be produced on the state level. In addition to analyzing major investment projects, in the coming years, our analyses will include economic opportunities generated from sensible regulatory reforms and tax reforms.

To be clear, we are not advocating that all projects be approved or constructed in the absence of any legal and regulatory barriers; we are merely measuring the extent of the economic losses. As Lord Kelvin stated – "If you cannot measure it, you cannot improve it."³ Our goal is to measure the potential economic loss, highlight the need for reforms, disseminate the results, and be a catalyst for change.

METHODOLOGY

The Lost Economy™ is a unique research program, but its methodology is very similar to many other economic studies, such as the one that analyzed over 350 energy projects across 49 states.⁴ That study estimated the lost economic benefits to be worth several trillion dollars and millions of lost jobs. However, unlike these one-time studies, The Lost Economy™ program will have periodic updates that will serve as a reminder of the economic costs associated with onerous regulations that block and stymie market development. The program will consider topics across many economic sectors and consumer markets – including real estate, information technology and communications, retail, transportation, energy, public utilities, services, manufacturing, and other industries and markets..

The principle variables used to evaluate economic impacts will be the calculation of GDP, employment earnings, and jobs lost due to regulatory impediments. As commerce is stimulated and investment deployed, economy benefits and losses can be estimated, in part, by estimating the value of direct purchasing of equipment and services, including direct employment of and payment to workers and contractors. From these direct effects, indirect economic benefits are also spurred, leading to an increased demand for secondary suppliers and contractors, which further leads to a rippling effect in hiring and paying additional employees, as well as the purchase of more equipment. In addition to the direct and indirect benefits from the stimulated increase in economic output and investment, workers use their increased pay to make various household purchases – an economic benefit referred to as induced effects. The total value of direct, indirect, and induced effects measure what is referred to as the multiplier effect.

³ Some attribute this quote to Lord Kelvin.

⁴ Steve Pociask and Joseph Fuhr, "Progress Denied: A study on the Potential Economic Impact of Permitting Challenges Facing Proposed Energy Projects," TeleNomic Research, March 10, 2011, http://www.projectnoproject.com/wp-content/uploads/2011/03/PNP_EconomicStudy.pdf.

Said differently, for every dollar of production denied, the potential opportunity costs cascade through various stages of production, employees spend their additional earnings, and the economy ends up with more than one dollar of lost economic output. The benefits forgone represent The Lost Economy™.

SOURCES AND EXAMPLES

This program follows the methodology outlined by the Bureau of Economic Analysis (U.S. Department of Commerce), which is also the source for the state and industry multipliers used in our analysis.⁵ As an example, in California, if one \$1.00 of nonresidential construction is blocked by regulations, it will mean that \$2.11 of state economic output was foregone.⁶ As stated before, this impact includes direct, indirect, and induced effects.

There is potentially a second impact. If a project is not constructed, it will not operate or produce anything in future years. This represents an additional opportunity cost. For example, if a wireless telecommunications tower is blocked and never built, the loss of construction will mean that some wireless services will not be delivered to consumers. If that is the case, then a \$1 drop in wireless communications services will lead to an additional loss of \$1.98 to California's state economy.⁷ To maintain simplicity and reduce subjective judgements, all figures will be reported in their current dollar value, not present discount value.⁸

KEY CAVEATS

This program broadly inventories and quantifies the value of many ongoing and proposed investments and private initiatives that are currently being impeded

or delayed because of regulatory, legislative and related actions. There are a few caveats worth noting. While we measure the size of the proposed potential benefits, these are just estimates based on public information and use average industry and state-level assumptions. It is worth noting that when projects are cancelled at one state, it may mean that investments may still take place, but in another state or country. We make no attempt to adjust for this, but merely highlight the symptoms and measure the problems.

When it comes to investment, there is always an element of uncertainty, particularly with respect to the economic cycle, market competition and changes in consumer demand. Additionally, we recognize not all the projects could or should be approved, but the sheer size and scope of potential benefits (and losses) provide ample examples of the adverse consequences resulting from onerous regulations, and it highlights the need for streamlining regulations, approvals, licensing, and permitting. Our independent research demonstrates that impediments such as regulatory barriers can substantially reduce and impair private investment, economic progress, consumer welfare, and job creation.

Notwithstanding the above caveats, this research provides an instructive and statistically defensible picture of the potential for corrosive economic and employment impacts that can arise from significant project obstacles such as inefficient regulatory processes. Moreover, we believe the data demonstrates that these impacts can be substantial.

⁵ "Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMSII)," Economic and Statistics Administration and Bureau of Economic Analysis, U.S. Department of Commerce, Third Edition, March 1997.

⁶ Distinct industry and state multipliers are available for output, earnings and employment are from the United States Bureau of Economic Analysis (BEA). The figure above comes from a 2007 national benchmark and 2015 regional data. Source: Regional Input-Output Modeling System (RIMS II), Regional Product Division, BEA, Table 3.5, Type II multipliers, 50 states, 2017.

⁷ Ibid, for industry 517210.

⁸ See J. S. Bain, R. E. Caves, and J. Margolis, *Northern California's Water Industry*, Johns Hopkins Press, Baltimore, 1966; William J. Baumol, "On the Social Rate of Discount," *American Economic Review*, Vol. 58, September 1968, pp. 788-802; J. V. Krutilla and O. Eckstein, *Multipurpose River Development*, Johns Hopkins Press, 1968; and Robert Shishko, "Choosing the Discount Rate for Defense Decision making", RAND, R-1953-RC, July 1976, Table 1, p. 10.

SUMMARY AND FIRST STUDY TOPIC

Corrosive economic and employment impacts can arise from significant and costly project obstacles caused by inefficient regulatory and permitting processes, and The Lost Economy™ Program intends to study and measure this problem. For the first area of research, this program will look at the estimated \$275 billion investment needed to rollout the next generation of wireless broadband services, referred to as “5G” infrastructure and services.⁹

This investment requires building a million small cells and distributive antenna systems. With 50 states, 3,000 counties and 20,000 incorporated places, upgrading the nation’s wireless infrastructure can be a daunting task – where many local governments levy excessive fees for permits and applications, impose rights-of-way (ROW) and pole attachment restrictions, enact moratoria on building, impose discriminatory zoning rules, and delay government approvals. This program will estimate, state-by-state, The Lost Economy™ resulting from these regulations on the next generation of wireless broadband services and the impact on consumers.



⁹ “Smart Cities: How 5G Can Help Municipalities Become Vibrant Smart Cities,” Accenture, January 2017, at https://newsroom.accenture.com/content/1101/files/Accenture_5G-Municipalities-Become-Smart-Cities.pdf. The FCC has also cited this figure in “Accelerating Wireless Broadband Deployment by Removing Barriers to Infrastructure Investment,” FCC, Notice of Proposed Rulemaking and Notice of Inquiry, WT Docket No. 17-79, April 20, 2017, at http://transition.fcc.gov/Daily_Releases/Daily_Business/2017/db0421/FCC-17-38A1.pdf.