



## LEGISLATIVE IMPACT ACCOUNTING

### Rethinking How to Account for Policies' Economic Costs in the Federal Budget Process

---

Laws passed by Congress impact the economy, but Congress has no systematic way to comprehensively track and assess the economic impact of legislative actions, especially when laws empower federal agencies to regulate. While the current budget process scores and tracks the economic impact of spending and taxes, it does not account for the economic consequences of regulation. The budget process and regulatory process currently work in isolation from each other.

A new paper for the Mercatus Center at George Mason University demonstrates the information gaps in the current budget process and recommends legislative impact accounting (LIA) as a way to improve both the budget process and regulatory process. Because many laws produce regulatory progeny over the course of several years, incorporating prospective and retrospective analysis into a feedback loop would inform Congress about the economic impacts of its legislative actions. While potentially challenging to implement, LIA would reform certain aspects of both the regulatory and legislative processes and could be a tool for good governance.

To read the paper in its entirety and learn more about its authors, economists [Jason J. Fichtner](#) and [Patrick A. McLaughlin](#), see [“Legislative Impact Accounting: Rethinking How to Account for Policies' Economic Costs in the Federal Budget Process.”](#)

#### PROBLEMS WITH REGULATORY ACCUMULATION

The number of pages in the *Code of Federal Regulations* has more than tripled since 1970, and the number of words constituting regulatory restrictions has grown from 834,659 in 1997 to 1,040,940 in 2012. As Congress has enacted more and more laws empowering federal agencies to promulgate more and more regulations, the government and the people incur more costs:

- Regulatory burden on business results in direct compliance costs, such as upgrading equipment to meet detailed standards and the cost of labor that must be allocated to these

For more information, contact  
Kate De Lanoy, 703-993-9677, [kdelanoy@mercatus.gmu.edu](mailto:kdelanoy@mercatus.gmu.edu)  
Mercatus Center at George Mason University  
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

activities. Moreover, businesses must engage in tradeoffs; for example, a company manager may shift time from improving workflow to filling out paperwork required by regulation.

- Economic growth results from technological progress and growth from previous years. Regulatory accumulation can hinder technological progress, thereby slowing economic growth over time and reducing the ability of businesses and workers alike to contribute to the economy.
- Studies suggest that as regulations accumulated between 1949 and 2005, they slowed US economic growth by an average of 2 percent per year. These estimates indicate that current GDP is about \$40 trillion smaller than it would have been if federal regulation remained at 1949 levels.

#### THE BUDGET SHOULD COMBINE THE LEGISLATIVE AND REGULATORY PROCESSES

The current legislative and regulatory processes operate in isolation from each other, and Congress lacks a means to effectively anticipate or track the economic consequences of many laws. The budget process only provides a partial accounting of government activity. In fact, the areas of government spending subject to the budget process are relatively small in comparison to what is not subject to the process, such as regulation, loan guarantees, and the future costs of entitlement obligations.

Congress lacks both sufficient information regarding the future economic effects of authorizing legislation and an effective means to use that information for oversight purposes:

- While delegating responsibility to regulators is often a politically more desirable choice for Congress, passing the onus of policymaking to regulatory agencies masks and understates the legislation's true cost on the economy.
- Even if Congress currently has a clear idea of the likely economic effects of its acts, it is not clear how this information helps Congress in its oversight role subsequent to passage of congressional acts. Hence, reform is needed.

#### RECOMMENDATION: LEGISLATIVE IMPACT ACCOUNTING

LIA is primarily a process of information creation. LIA would create a feedback loop that communicates information about economic effects of regulations, and, by extension, its authorizing legislation, back to Congress once those effects are better known. LIA would also require consideration all economic costs—not just budgetary outlays—of proposed legislation. All of this information would be formally incorporated into the federal budget process. LIA would entail a three-step process:

- 1) *Legislative impact assessments.* Prospective economic analyses of proposed legislation would be produced and presented to Congress prior to voting.
- 2) *Regulatory impact analyses.* Ex ante regulatory impact analyses and ex post retrospective analyses would produce estimates of the benefits and costs of agency actions related to specific acts of Congress, and the estimates would be available to the public. These estimates would be passed back to Congress, which could then update the prospective legislative impact assessments produced in the first step.
- 3) *Agency budget adjustments.* This feedback would permit Congress to evaluate agency budget requests with more complete and accurate information about the full economic effects of both congressional and agency actions.

As discussed in the full paper, integrating LIA into the budget process requires additional research on several important questions. For example:

- Given the complexity of authorizing legislation, how difficult would it be to incorporate legislative impact assessments into the current political process?
- Would a new agency be needed to conduct these analyses, or could a current analytical office handle the new system?
- Would agencies be in charge of their own retrospective analyses, or would independent assessment be required?
- If the process included a regulatory account limit, how would such limits impact rulemaking and the relationship between agencies and Congress?

## CONCLUSIONS

### **Deficiencies in the Current Budget Process**

Proper budgeting requires planning, setting priorities, and making decisions. Proper budgeting is about making trade-offs between competing wants and limited resources—but these decisions cannot be made in the absence of complete and proper information about how various policy decisions will affect the economy and the US budget position. Regulations relate to this process by virtue of creating benefits and costs to the economy as a result of legislation, but complete and proper information about these regulations' effects is largely missing at the time of passage of legislation.

### **The Advantages of Legislative Impact Accounting**

Legislative impact accounting can be a remedy to a twofold problem—nonfunctional rules and regulatory accumulation—that arises in the current regulatory process. Extensive costs associated with policy actions—in particular, the costs of regulations—are not accounted for in the budgeting process. Just as one's decision to buy a home and save for retirement today impacts one's future economic security, policy decisions by Congress and agencies have an impact on the nation's economic well-being in the future.

Legislative impact accounting has the potential to improve policy outcomes and aid congressional and agency decision-making well into the 21st century. Without a legislative impact accounting of the actions of government, ill-advised or bad policies may be adopted with harmful consequences, resulting not only in lost economic output but also erosion in public trust of government to govern efficiently and equitably.