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New Congressional Research Service Report Finds Major Trouble in SBA's Regulatory Costs Study

by Ben Somberg

It's their favorite figure: $1.75 Trillion. Repeated *ad nauseam* in congressional hearings by members of congress and expert witnesses alike, it is the supposed annual cost of regulations, this according to a study from last year commissioned by the Small Business Administration's Office of Advocacy. Sponsors of anti-regulatory legislation like the number: Olympia Snowe and Tom Coburn included it in the 'findings' of their bill, while Geoff Davis, chief sponsor of the REINS Act, cites it regularly. It's been used by John Boehner and Eric Cantor, and House committee chairs Fred Upton, Darrell Issa, Lamar Smith, and Sam Graves. Conservative think tanks like the Competitive Enterprise Institute and the Heritage Foundation are fond of it. A few Democrats have gotten in on the act, too: Mark Warner, proponent of his own anti-regulatory plan, has cited it, as has Nydia Velazquez, Ranking Member of the House Small Business Committee.

Is it correct? In February, a CPR white paper found a series of flawed methods in the SBA's study, and showed that most of the SBA's number was derived from a regression analysis that used opinion polling data on perceived regulatory climate.

Now the nonpartisan Congressional Research Service (CRS) has published its own report examining the SBA study. CRS looked at a number of aspects of the SBA-commissioned study, and found an awful lot of questionable assumptions. I encourage you to check it out.

I'm not going to try to summarize the whole CRS report here, but I think this excerpt gets to the heart of some of the problems in the SBA study, which was conducted by economists Nicole Crain and Mark Crain:

> More than 70% of the overall estimate ($1.236 trillion) is based on the WGI index of regulatory quality for the United States, with the authors determining the extent to which economic regulations reflected in that index reduces per capita real GDP in the United States. However, one of the authors of the regulatory quality index has said that Crain and Crain misinterpreted the index, and that higher values on the index cannot be interpreted as "less stringent regulations." Even if it could, he said that the index for the United States should be compared to a country with a preferable index, not to an idealized "best possible" score on the index. Comparing the United States' regulatory quality index in 2008 to the country with the highest index that year (Ireland) would have reduced Crain and Crain's estimate of the cost of economic regulations by nearly two-thirds. Other commenters (including one of the peer reviewers of the Crain and Crain study) raised similar concerns about whether the regulatory quality index could be used to measure the cost of economic regulations, and about the regression analysis used to produce the cost estimate.

Folks who have cited the SBA study triumphantly ought to take a step back and really look at the study and CRS's new report. Is the SBA's methodology something they'd want to defend?