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RESEARCH SUMMARY

HOW DO FEDERAL REGULATIONS AFFECT CONSUMER PRICES?
An Analysis of the Regressive Effects of Regulation

When the federal government introduces new regulations for an industry, there are numerous potential consequences for both producers and consumers. Often, complying with regulations is costly for firms, and these higher costs may in turn drive up prices for consumers. Higher prices caused by regulatory growth are unlikely to affect all consumers equally. High-income and low-income households tend to have different spending patterns, and regulations may have a larger impact on one group than on another.

A new study for the Mercatus Center at George Mason University examines the relationship between regulatory expansion and higher prices, and finds that price increases caused by regulation have a disproportionately negative effect on low-income households. The poorest households tend to spend a larger proportion of their income on goods that are heavily regulated and subject to both high and volatile prices. This cost should be recognized in policymakers' efforts to consider the costs and benefits of new and existing regulations.

To read the study in its entirety and learn more about its authors, economists Dustin Chambers and Courtney A. Collins, see "How Do Federal Regulations Affect Consumer Prices? An Analysis of the Regressive Effects of Regulation."

STUDY DESIGN AND DATA COLLECTION

While several previous papers have documented potential costs associated with the burden of federal regulations, none have provided a comprehensive empirical analysis of the effect of regulations on consumer prices. This study uniquely combines data from the Consumer Expenditure Survey with industry-specific regulation information from the Mercatus Center's RegData database as well as information on price changes over time from the Consumer Price Index.

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The ideas presented in this document do not represent official positions of the Mercatus Center or George Mason University.

KEY FINDINGS

Regulations in the Aggregate Lead to Price Increases

The stated purpose of regulations is often to help protect consumers from a variety of problems in the market. However, the benefit of any sort of protection must be weighed against the cost of higher prices. The data show evidence of a statistically significant relationship between regulation and increased prices.

There is a period of time between the publication of new regulatory restrictions and when they have a measurable impact on prices, so it is important to evaluate both variables over time. After the impacted production processes have been altered to comply with a new regulation, there is an associated jump in the price of the affected goods and services. Comparing the growth rate of prices over time against the growth rate of regulations over time, the data show that a 10 percent increase in total regulations leads to a 0.687 percent increase in consumer prices.

Poorer Households Spend More on More Heavily Regulated Goods

The data also show that households from the poorest income groups experience the highest overall levels of inflation and the highest levels of price volatility. In comparison to wealthier households, poorer households spend a substantially larger proportion of their income on more inflation-prone, volatile, and heavily regulated goods and services.

In the two most stable price quartiles of consumer expenditures, wealthier households allocated 15.3 percentage points more spending than the poorest households. By contrast, the poorest households allocated 15.3 percentage points more spending than the wealthiest households in the two most volatile quartiles.

CONCLUSION

Regulators and policymakers often claim that regulations are intended to protect the poorest and most vulnerable consumers. However, the effects of regulations are most harmful to the poor because regulations drive up the cost of doing business, resulting in higher prices. Unfortunately, the goods and services to which the poor devote much of their limited budgets, such as energy and food, are also the most heavily regulated.

Another unintended effect of regulation is that the poor face a higher overall rate of inflation in the goods they tend to purchase. In addition to undergoing larger price hikes, these heavily regulated products also display greater volatility, meaning that low-income households face more uncertainty in their household budgets than do wealthier households. Policymakers must understand the unintended effects of higher, more volatile prices on the poor when considering new regulations.