

MERCATUS CENTER REGULATORY COST CALCULATOR

Regulation creates costs for businesses and their customers. The Mercatus Center's Regulatory Cost Calculator is a practical tool designed to help businesses and their trade associations assess prospective costs of individual proposed regulations before they become final regulations. Armed with this information, businesses and trade associations can provide accurate and credible estimates of the costs of proposed regulations to regulators, legislators and their staffs, the media, and the public policy community.

Costs of regulation include

- direct expenditures on compliance, such as paperwork, new equipment, or employee training;
- the value of owner, manager, or employee time diverted to regulatory compliance;
- profit forgone on investments the business no longer makes as it is forced to divert resources to regulatory compliance;
- the profit businesses lose and the value consumers lose from the price increases, quality changes, or other sales-reducing behavioral responses induced by regulation;
- the costs of resources that businesses and trade associations expend to influence regulation.

These costs are not always explicit or obvious, because some of them involve lost opportunities rather than expenditures. The purpose of the Cost Calculator is to provide better information on the full cost of regulation by identifying both direct and indirect costs and eliciting information that economists can use to estimate the cost of regulation to customers and our broader society.

The Cost Calculator begins on the following page.

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ONE-TIME COSTS

The most obvious costs of regulation are the costs required to comply. This section will help you identify one-time costs, and the next section will help identify recurring costs. For multi-plant companies, there will be costs borne by each plant, and costs borne by headquarters. Each plant and headquarters should have a separate list of costs.

1. What were/will be the one-time costs that you/your business will incur due to this regulation? If a cost was/will be financed, it is considered a recurring cost (payment made on a recurring basis) and appears in question 5. If an option below incurs no cost, please enter "0".

- a. Buildings (purchase, renovation, improvement) \$____
- b. Land (purchase, improvement) \$____
- c. Capital equipment/furniture/fixtures (purchase, installation) \$____
- d. Vehicles (purchase, repair) less trade-in \$____
- e. Advertising/marketing/customer information, or notification \$____
- f. Manuals/books/videos/instructional material \$____
- g. Licenses/fees/certifications/registrations \$____
- h. Employee recruitment \$____
- i. Travel \$____
- j. Loss in value of inventories/supplies/materials that must be discarded or sold at a loss due to the regulation \$____
- k. Consulting/professional services (accountants, lawyers, engineers, etc.) \$____
- l. Owner(s) time (cost/hr × hrs) \$____
Include overhead and, if possible, forgone profit. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- m. Manager(s) time (cost/hr × hrs) \$____
Include overhead and, if possible, forgone profit. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- n. Employee(s) time (cost/hr × hrs) \$____
Include overhead and, if possible, forgone profit. We have furnished a labor cost calculator table at the end of this survey that may be helpful.

For k, l, m, and n, include the time spent reading, interpreting, and deciding how to comply with regulations.

o. Other* \$____

2. * If you offered a cost for "Other" above, please specify:

3. Approximately what percentage of these one-time costs have you already paid?
 - a. None
 - b. 10%
 - c. 25%
 - d. 50%
 - e. 75%
 - f. 90%
 - g. All costs

4. How confident are you that the one-time costs you identified above closely approximate the final amount of one-time costs that you actually will experience?
 - a. Very confident
 - b. Not too confident
 - c. Somewhat confident
 - d. Not at all confident

RECURRING COSTS (PER MONTH)

5. What are/will be the recurring costs PER MONTH that you/your business will incur due to the regulation? If an option below incurs no cost, please enter "0". (NOTE: if a regulation results in a net cost saving, please include in the "net cost saving" question 6.)

- a. Buildings (purchase, renovation, improvement) \$____
- b. Land (purchase, improvement) \$____
- c. Equipment/furniture/fixtures (purchase, installation) \$____
- d. Vehicles (purchase, repair) less trade-in \$____
- e. Advertising/marketing/customer information, or notification \$____
- f. Manuals/books/videos/instructional material \$____
- g. Licenses/fees/certifications/registrations \$____
- h. Employee recruitment \$____
- i. Recurring training costs \$____
- j. Consulting/professional services (accountants, lawyers, engineers, etc.) \$____
- k. Owner(s) time (cost/hr × hrs) \$____
Include overhead and, if possible, forgone profit. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- l. Manager(s) time (cost/hr × hrs) \$____
Include overhead and, if possible, forgone profit. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- m. Employee(s) time (cost/hr × hrs) \$____
Include overhead and, if possible, forgone profit. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- n. Travel \$____
- o. Utilities (electricity, water, etc.) \$____
- p. Fuel (gasoline, diesel, propane, etc.) \$____
- q. Other* \$____

6. Net cost saving (if any)

- a. Buildings (purchase, renovation, improvement) \$ ____
- b. Land (purchase, improvement) \$ ____
- c. Equipment/furniture/fixtures (purchase, installation) \$ ____
- d. Vehicles (purchase, repair) less trade-in \$ ____
- e. Advertising/marketing/customer information, or notification \$ ____
- f. Manuals/books/videos/instructional material \$ ____
- g. Licenses/fees/certifications/registrations \$ ____
- h. Employee recruitment \$ ____
- i. Consulting/professional services (accountants, lawyers, engineers, etc.) \$ ____
- j. Owner(s) time (cost/hr × hrs) \$ ____
Include overhead and, if possible, additional profit earned because owners can spend their time doing something else. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- k. Manager(s) time (cost/hr × hrs) \$ ____
Include overhead and, if possible, additional profit earned because managers can spend their time doing something else. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- l. Employee(s) time (cost/hr × hrs) \$ ____
Include overhead and, if possible, additional profit earned because employees can spend their time doing something else. We have furnished a labor cost calculator table at the end of this survey that may be helpful.
- m. Travel \$ ____
- n. Utilities \$ ____
- o. Fuel \$ ____
- p. Other* \$ ____

7. Approximate number of years the payments (or savings) will last:

- a. Buildings (purchase, renovation, improvement) ____
- b. Land (purchase, improvement) ____
- c. Equipment/furniture/fixtures (purchase, installation) ____
- d. Vehicles (purchase, repair) less trade-in ____
- e. Advertising/marketing/customer information, or notification ____
- f. Manuals/books/videos/instructional material ____
- g. Licenses/fees/certifications/registrations ____
- h. Employee recruitment ____
- i. Consulting/professional services (accountants, lawyers, engineers, etc.) ____
- j. Owner(s) time ____
- k. Manager(s) time ____
- l. Employee(s) time ____
- m. Travel ____
- n. Utilities ____
- o. Fuel ____
- p. Other* ____

8. * If you offered a cost, cost cut, or years for "Other" above, please specify:

9. Approximately what percentage of these recurring costs have you already started to incur?
 - a. None yet
 - b. 10%
 - c. 25%
 - d. 50%
 - e. 75%
 - f. 90%
 - g. All costs

10. How confident are you that the recurring costs you have identified above closely approximate the final amount of recurring costs that you actually will experience?
 - a. Very confident
 - b. Somewhat confident
 - c. Not too confident
 - d. Not at all confident

LONG-LIVED ASSETS (3 YEARS EXPECTED LIFE OR MORE)

If your business did not and will not purchase any long-lived assets as a result of the regulation, please skip to question 32.

The purpose of this section is to identify assets purchased as a result of the regulation, estimate their cost, and ensure that the cost of the regulation is not over-estimated because some kind of asset like this would have been purchased anyway or because the assets they replace have resale or salvage value.

11. Has your business purchased or will it purchase any buildings, vehicles, equipment, or other long-lived assets (3 years of useful life or more) as a result of this regulation?
 - a. Yes
 - b. No

12. What is the largest asset purchased because of the regulation?

13. Which BEST describes this asset? (Please mark best answer.)
- a. I would have bought it anyway, just at a later date.
 - b. It's a substitute, perhaps even an upgrade, that I would NOT have purchased without the regulation.
 - c. It's totally new, something I did not have before.
14. If you marked answer (a) above, by how many months did you advance your purchase? (Please enter a whole number.) _____
15. What is the 2nd largest asset purchased because of the regulation?

16. Which BEST describes this asset? (Please mark best answer.)
- a. I would have bought it anyway, just at a later date.
 - b. It's a substitute, perhaps even an upgrade, that I would NOT have purchased without the regulation.
 - c. It's totally new, something I did not have before.
17. If you marked answer (a) above, by how many months did you advance your purchase? (Please enter a whole number) _____
18. What is the 3rd largest asset purchased because of the regulation?

19. Which BEST describes this asset? (Please mark best answer.)
- a. I would have bought it anyway, just at a later date.
 - b. It's a substitute, perhaps even an upgrade, that I would NOT have purchased without the regulation.
 - c. It's totally new, something I did not have before.
20. If you marked answer (a) above, by how many months did you advance your purchase? (Please enter a whole number.) _____

21. If you will purchase substantial assets in addition to the largest three, feel free to provide the same information about them here that you provided about the largest three assets above:

22. Will your business sell, trade in, or discard any long-lived assets as a result of this regulation?

- a. Yes
- b. No

If the answer is "no," please skip to question 26.

23. For your largest asset purchased because of the regulation:

- a. What was the total cost of buying this asset new? _____
- b. In MONTHS, how long did you expect to use this asset? (its useful life) _____
- c. Total salvage/resale value of the old asset (deduct any cost of selling) _____

24. For your 2nd largest asset purchased because of the regulation:

- a. What was the total cost of buying this asset new? _____
- b. In MONTHS, how long did you expect to use this asset? (its useful life) _____
- c. Total salvage/resale value of the old asset (deduct any cost of selling) _____

25. For your 3rd largest asset purchased because of the regulation:

- a. What was the total cost of buying this asset new? _____
- b. In MONTHS, how long did you expect to use this asset? (its useful life) _____
- c. Total salvage/resale value of the old asset (deduct any cost of selling) _____

EFFECTS ON INVESTMENT

Regulation might cause your business to make different investment decisions than it otherwise would. One hidden cost of regulation is the profit your business has to forgo on investments it cannot now make because of the regulation. The purpose of this section is to identify that hidden cost.

26. If this regulation did not exist, what else would your business have done with the money spent on long-lived assets purchased to comply with the regulation? (Please choose the most likely answer.)
- Invest in something else for the business
 - Keep a larger cash reserve
 - Pay off debt
 - Pay out to owners/shareholders/employees as profit, profit-sharing, or bonuses
27. Are there projects (business investments) that you have canceled or indefinitely postponed due primarily to the regulation?
- Yes
 - No
28. What specific aspect(s) of the regulation caused you to cancel or indefinitely postpone the investment(s)? (Please mark ALL that apply.)
- Diversion of cash flow or available resources to comply with the regulation
 - Uncertainty that the regulation will be adopted
 - Uncertainty about the effects this regulation will have if it is adopted
 - Increased risk/liability resulting from the regulation
 - Regulation will reduce sales below the level that justifies the project(s)
 - Other (please specify)
29. What is the total investment in \$ you would have made in these projects? _____
30. Please answer ONE of the following questions (either/or, not both)
- What is the annualized return on investment, in %, you expected from the investments? _____
 - What is the payback period, in years, for the investment(s)? _____

31. If the business would have paid off debt with the money invested in regulatory compliance,
- a. What is the \$ amount of debt that would have been paid off? _____
 - b. What is the interest rate on this debt? _____

EFFECTS ON PRODUCTION

Regulation can require not just expenditures, but also redesign of production processes, products, or services. The purpose of this section is to identify those costs.

32. Will you have to change your products, services, production or business processes, labeling, or marketing to comply with the regulation?
- a. Yes
 - b. No
33. Have the costs of these changes all been listed in the questions asked previously in this survey?
- a. Yes
 - b. No

If the answer is "yes," please skip to question 36.

34. Are these one-time costs, recurring costs, or both?
- a. One-time
 - b. Recurring
 - c. Both one-time and recurring

35. Please describe the cost(s) and estimate it (them).

EFFECTS ON CUSTOMERS AND SALES

Another hidden cost of regulation is the value customers give up because your business has to discontinue, alter, or increase the prices of products or services. Your answers to the questions below will help economists estimate these hidden costs.

36. Will your business discontinue offering any products or services as a result of the regulation?
- Yes
 - No
37. Why will your business discontinue offering any products or services as a result of the regulation? (Please mark ALL that apply.)
- The regulation prohibits my business from selling certain products and/or services.
 - The regulation makes certain products and/or services too costly to provide.
 - The regulation would force my business to change its products and/or services in ways that customers won't accept.
 - Other (please specify)
38. Will your business increase prices to recoup some of the regulation's costs?
- Yes, across-the-board price increases.
 - Yes, but increases ONLY on those products and/or services affected by the regulation.
 - No, will not increase prices.
39. If your answer to question 38 was (a) or (b), by approximately what percentage do you plan to increase prices? (open ended)
40. Do you expect this price increase to reduce the quantity of your product or service sold by:
- Not reduce sales
 - Reduce 1-2%
 - Reduce 3-5%
 - Reduce 6-9%
 - Reduce 10-14%
 - Reduce 15-19%
 - Reduce 20% or more
41. How much of this product do you sell (in units)? _____

42. Will the regulation reduce the quality of your product or service in the eyes of customers?

- a. Yes
- b. No

43. Do you expect this (perceived) quality change in the affected product or service to reduce sales by:

- a. Not reduce sales
- b. Reduce 1-2%
- c. Reduce 3-5%
- d. Reduce 6-9%
- e. Reduce 10-14%
- f. Reduce 15-19%
- g. Reduce 20% or more

44. How much of the product or service units do you currently sell? (Please report volume/quantity, not revenues.) (open ended)

COST OF INFLUENCING THE REGULATION

Another frequently overlooked cost of regulation is the money, time, and other resources businesses and other affected stakeholders spend to influence the regulation. This section is intended to identify those costs.

45. Have you or has your business directly spent any time, money, or effort to support, oppose, or otherwise influence development and/or institution of this regulation?

- a. Yes
- b. No

46. If yes, please explain how much time, money, and/or effort you have spent.

47. Are you a member of one or more business-oriented organizations that spent time, money, or effort to support, oppose, or otherwise influence development and/or institution of this regulation?

- a. Yes
- b. No

OTHER CONSEQUENCES

48. Will you switch to a less regulated input/process to reduce regulatory costs?

- a. Yes
- b. No

49. Do you expect significant outsourcing from your industry to countries that do not have this regulation?

- a. Very likely
- b. Somewhat likely
- c. Don't know
- d. Somewhat unlikely
- e. Very unlikely

50. Will this regulation improve, damage, or have no effective on your business's competitive position?

- a. Improve a lot
- b. Improve
- c. No effect
- d. Damage
- e. Damage a lot

51. Will this regulation, if fully implemented and enforced, cause you to go out of business?

- a. Very likely
- b. Somewhat likely
- c. Don't know
- d. Somewhat unlikely
- e. Very unlikely

INFORMATION CONCERNING YOUR BUSINESS

52. Which best describes the number of employees you have?

- a. 1-9
- b. 10-19
- c. 20-49
- d. 50-99
- e. 100-249
- f. 250 or more

53. Which best describes your sales in the last fiscal (or calendar) year? (NOTE: the reason we ask is to be able to calculate the costs of the regulation as a percentage of total sales.)
- a. <\$200,000
 - b. \$200,000–\$500,000
 - c. \$500,000–\$999,999
 - d. \$1M–\$2.4M
 - e. \$2.5M–\$4.9M
 - f. \$5M–\$9.9M
 - g. \$10M or more
54. What industry or type of business do you generate most sales in? (Examples might be electrical contracting, software development, furniture manufacturing.)
55. What is the number of business locations, including job sites where applicable, directly affected by the regulation?
56. Do you have any comments or criticism that will help us make the Cost Calculator better or easier to use?

LABOR COST CALCULATOR

Use this calculator to estimate the total cost of your time and your employees' time. If compliance with the regulation is likely to lead to overtime pay or cause non-hourly personnel to sacrifice leisure or family time because they have to work longer hours, adjust the compensation to reflect overtime paid or the non-work time sacrificed by non-hourly personnel.

<p>Activity (e.g., attend safety seminar)</p>	
<p>Recurring or one-time?</p>	
<p>Who performs? (owner, manager, or employee)</p>	
<p>A. Number of hours</p>	
<p>B. Hourly pay + Benefits</p>	
<p>C. Hourly overhead costs (e.g., providing office space, paid sick leave, etc., not already counted as part of benefits—typically this will be 25-50% of direct pay)</p>	
<p>D. Lost profit (hourly profit from the activities you or your employee would have otherwise performed)</p>	
<p>TOTAL $A \times (B + C + D)$</p>	