US Daily: Deregulation, Reregulation, and the Economy (Nicolae)

- Over the past four years, the Trump administration advocated a broad deregulatory agenda with the goal of accelerating economic growth. The transition to the Biden administration raises the questions of how much deregulation mattered for the economy and what impact reversing these changes to regulatory policy might have.
- Several measures suggest that federal regulation stopped expanding but did not substantially decrease in the past four years. We assess the economic impact of the Trump administration's regulatory policy changes using agency estimates, academic studies, and a bottom-up perspective from our equity analysts' industry commentary. All of these sources suggest that the impact of regulatory policy changes over the last four years has been limited at a macroeconomic level.
- Looking forward, the Biden administration plans to reverse at least some of the Trump administration's environmental deregulation. Possible changes include stricter fuel efficiency standards, increased renewable energy targets, increased environmental review of proposed infrastructure projects, and reduced exemptions from environmental standards for small fuel refineries. If implemented, these changes are likely to boost earnings for U.S. clean energy companies, have a neutral to slightly positive impact on many auto makers' earnings, and lower earnings for small fuel refineries. At a macroeconomic level, the impact is likely to be modest.

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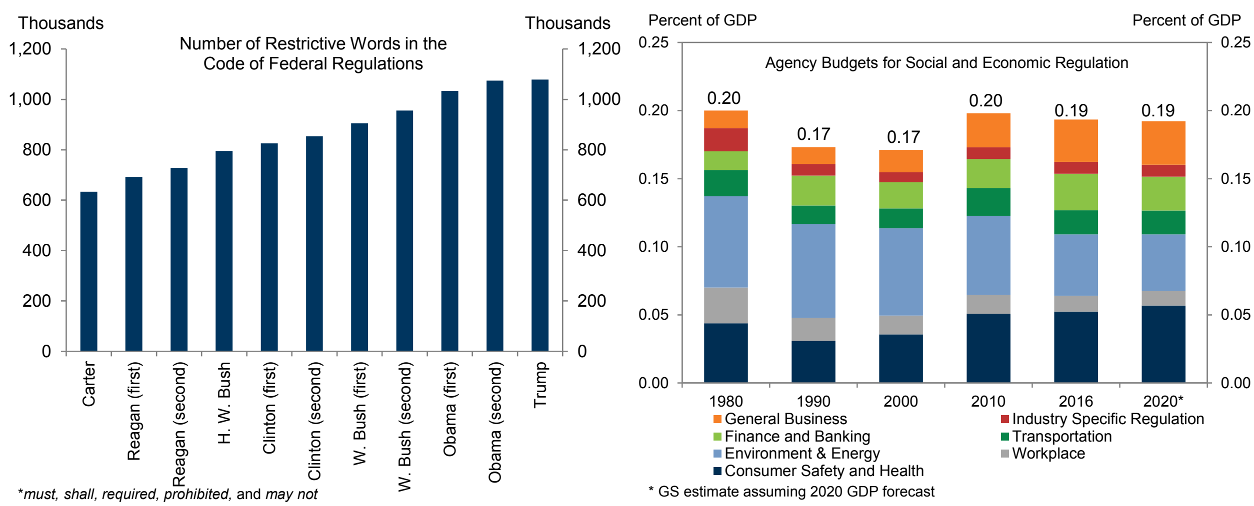
Deregulation, Reregulation, and the Economy

Over the past four years, the Trump administration advocated a broad deregulatory agenda with the goal of accelerating economic growth. We take stock of how much deregulation occurred, how much it mattered for the economy, and how much regulation might come back in the Biden administration.

Statements from the White House have highlighted the rollback of more "red tape" over the past four years than in any past administration through measures that include removing nearly 25,000 pages of regulations and eliminating eight federal regulations for every new regulation adopted. However, a recent academic study questions the accuracy of these claims[1], and two proxies for the federal regulatory burden, the number of restrictive words in the Code of Federal Regulations and agency budgets for regulation[2], both remain roughly at their 2016 levels (Exhibit 1). These measures suggest that although the scope of regulation stopped expanding in the past four years, it did not substantially decrease.[3]

Exhibit 1: Federal Regulation Stopped Expanding but Did Not Substantially Decrease Under the Trump Administration



Source: Mercatus Center, QuantGov, George Washington University, Goldman Sachs Global Investment Research

Much of the deregulation from the past four years was concentrated in the environmental and energy categories. Exhibit 2 summarizes the Trump administration's major regulatory changes. Significant deregulatory actions include lower fuel efficiency standards for vehicles, reduced environmental permitting requirements, relaxed financial regulations, and the repeal of net neutrality. In contrast, the administration increased restrictions on immigration, drug prices, and nicotine products.

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1 Cary Coglianese, Natasha Sarin, and Stuart Shapiro, "Deregulatory Deceptions: Reviewing the Trump Administration's Claims About Regulatory Reform," Penn Program on Regulation, November 2020.

2 The fiscal budget outlays devoted to developing and enforcing federal regulations

3 Some measures suggest that regulation has decreased slightly. As we discuss later, the Office of Management and Budget's own estimates find that regulatory compliance costs decreased by $198.6 billion (~1% of GDP) in net present value terms, implying an average cost reduction of about $13.9 billion (0.07% of GDP) each year.

Exhibit 2: Major Regulatory and Deregulatory Actions Under the Trump Administration Across Sectors

	Major Regulatory and Deregulatory Actions Under the Trump Administration
Energy and Environment	● SAFE Vehicles Rule reduced fuel efficiency standards for vehicles in 2021–2026 ● Revoked California's waiver to set its own, stricter fuel efficiency standards for vehicles* ● Section 201 tariffs on imported solar cells ● Accelerated environmental reviews for infrastructure projects under the National Environmental Protection Act ● Repealed the Clean Power Plan's requirement for coal-burning power plants to reduce carbon emissions and replaced it with the weaker Affordable Clean Energy Act ● Relaxed efficiency standards for appliances
Consumer and Retail Products	● Prohibited the sale of tobacco products to people under age 21† ● Banned the sale of all non-menthol or tobacco flavored e-cigarettes ● Required new textual warning statements and color graphics depicting the negative health consequences of smoking on cigarette packages and advertisements*
Labor	● Expanded the definition of "independent contractor" for the purpose of benefits and labor laws* ● Mandated temporary paid sick leave for Covid-related reasons†
Healthcare	● Expanded Medicare coverage for telehealth services during the pandemic ● Linked payment for Medicare drug prices to an international index* ● Amended Medicare Part C and Part D regulations to support health and drug plans' negotiations for lower drug prices ● Required TV advertisements of Medicare/Medicaid-covered prescription drugs to include the drug's list price
Technology, Media, and Telecom	● Repealed net neutrality ● Reassigned airwaves previously reserved for connected transportation such as internet-connected cars to general unlicensed Wi-Fi use*
Immigration	● Replaced the H1-B lottery by prioritizing immigrant workers with the highest pay* ● Tightened educational requirements for high-skilled work visas ● Lowered wages for immigrant farmworkers on temporary H-2A work visas
Financials	● Repealed fiduciary rule requiring that retirement advisors act in the best interests of their clients and replaced with the "best interest rule" ● Modified prohibitions and restrictions on banks' proprietary trading and relationships with hedge funds and private equity funds

Note: * indicates that the rule has not yet come into full effect. † indicates that the regulatory change originated with Congressional legislation.

Source: Brookings Institution, ProPublica, Government Accountability Office, Goldman Sachs Global Investment Research

A 2019 report from the Council of Economic Advisers (CEA) argued that the administration's deregulatory actions will have a powerful impact on the economy. The report claims that twenty specific deregulatory actions alone will save consumers and businesses $220 billion (~1% of GDP) annually once they go into full effect. However, a recent study by Coglianese, Sarin, and Shapiro finds that these estimates overstate the economic effects of deregulation, in part because they ignore confounding variables that lowered costs at the same time that the administration's regulatory changes were adopted. For example, the CEA estimates that the repeal of an FCC rule allowing internet service providers to use or share a customer's personal data unless the customer "opted out" generated $22 billion in annual cost savings from lower prices for wireless services. However, our equity analysts believe that the repeal had negligible economic effects in part because most customers continued to "opt in" to data sharing, and Coglianese, Sarin, and Shapiro have noted that the decline in prices for wireless services around the same time was likely driven at least in part by increased market competition between Verizon and T-Mobile.

In addition, the Office of Management and Budget's (OMB's) estimates find that the economic impact of the Trump administration's regulatory changes has been modest. For example, the OMB estimates that over the past four years, future regulatory compliance costs decreased by $198.6 billion[4] (~1% of GDP) in net present value terms, implying an average cost reduction of $13.9 billion (~0.07% of GDP) each year, but the regulatory cost savings are likely greater when compared to a counterfactual in which regulation continued to expand at its historical pace rather than staying roughly constant over the past four years.[5] The OMB classified few of the administration's regulatory or deregulatory actions from the past four years as "economically significant" (likely to have an annual economic impact of at least $100 million).

Estimates of the economic benefits of deregulation also ignore its non-economic costs, which affect welfare even though they are not captured in standard economic statistics like GDP. For example, the OMB estimated at the start of the administration in 2017 that the benefits of environmental regulation adopted by the Environmental Protection Agency over the previous ten years far outweighed the costs (Exhibit 3).[6] Several studies that incorporate broader measures of welfare also find positive non-economic benefits from environmental regulation, such as improvements in public health due to better air or water quality.[7] Even if recent environmental deregulation boosted GDP modestly, it might have had a negative net effect on broader social welfare.[8]

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4 $ 2016

5 Although this represents only a minority of new rules, the OMB estimates that the net benefits of the new major rules adopted over fiscal years 2017-2019 for which issuing agencies estimated both costs and benefits ranges from $2.1 billion annually to $9.5 billion annually.

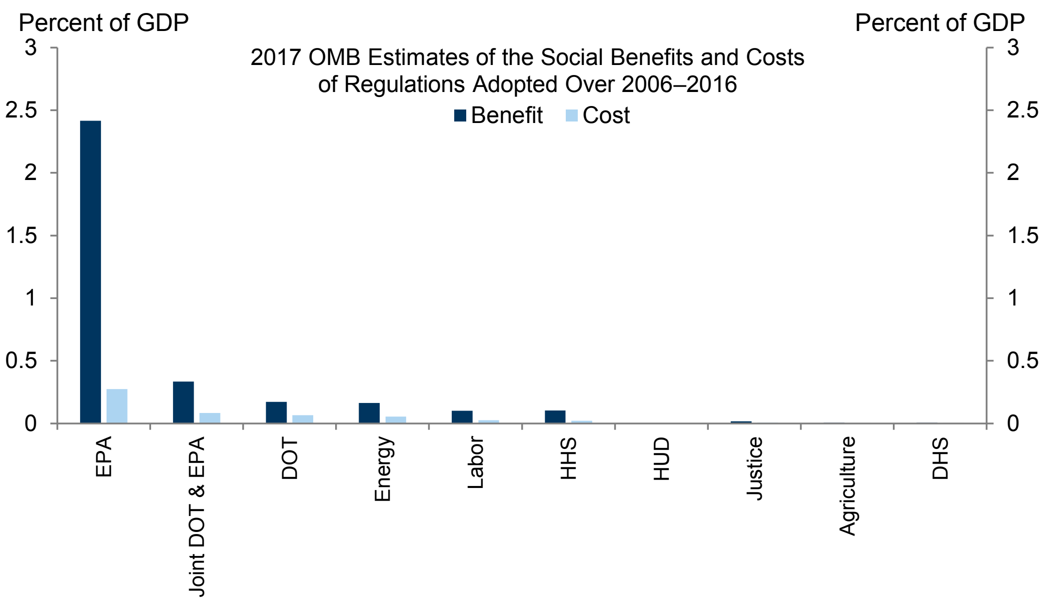
6 See Office of Management and Budget (2017), "2017 Report to Congress on the Benefits and Costs of Federal Regulations and Agency Compliance with the Unfunded Mandates Reform Act."

The OMB estimates that the three rules adopted by the EPA during the Trump administration for which the agency estimated both benefits and costs had greater benefits than costs. However, some research suggests that agencies tend to overstate the benefits of their regulatory changes relative to costs, but it is unlikely that the benefits of environmental regulation are uniquely overstated relative to other kinds of regulation, implying that environmental regulation still likely has a higher benefit-cost ratio than other kinds of regulation. See Miller, Benjamin M., et al. (2017), "Inching Toward Reform: Trump's Deregulation and Its Implementation," RAND Corporation.

7 See, for example, Ferris, Ann, Richard Garbaccio, Alex Marten, and Ann Wolverton (2017), "Working Paper: The Impacts of Environmental Regulation on the U.S. Economy," Environmental Economics Working Paper Series, Environmental Protection Agency; Palmer, Karen, Wallace E. Oates, and Paul R. Portney (1995), "Tightening Environmental Standards: The Benefit-Cost or the No-Cost Paradigm?", Journal of Economic Perspectives 9(4).

8 See also Cary Coglianese, Natasha Sarin, and Stuart Shapiro, "Deregulatory Deceptions: Reviewing the Trump Administration's Claims About Regulatory Reform," Penn Program on Regulation, November 2020.

Exhibit 3: Environmental Regulations Have the Highest Benefit-Cost Ratio Across Agencies



Source: Office of Management and Budget, Goldman Sachs Global Investment Research

Our equity analysts also view the impact of regulatory changes from the past four years as modest overall, though several measures have had a moderate impact at the sector level (Exhibit 4). The largest economic effects likely stem from reduced environmental and energy regulations. For example, the Trump administration liberally exempted small fuel refineries from the Renewable Fuel Standard, which requires refineries to blend their gasoline or diesel products with renewable fuels; the exemptions provided a tailwind for small refineries but had more modest effects at the industry level. Accelerated environmental reviews for infrastructure projects also might have modestly increased construction spending. In non-environmental regulation, the ban on non-menthol or tobacco-flavored e-cigarette cartridges significantly lowered e-cigarette sales.

In many cases, however, regulatory changes have had little impact to date because they have not yet become fully effective. For example, the SAFE Vehicles Rule substantially lowers fuel efficiency requirements for new vehicle models in 2021–2026 but has had negligible effects on auto manufacturers' earnings to date, and the revocation of California's EPA waiver, which allows the state to set its own fuel efficiency standards if they are stricter than federal standards, has been delayed by legal challenges. Despite the administration's acceleration of environmental review for construction projects, legal challenges and opposition from state governments have delayed or canceled the construction of several oil and natural gas pipelines, and a rule that links payment for Medicare Part B drugs to an international drug price index has been blocked by a U.S. District Judge from taking effect on January 1st.

Exhibit 4: Our Equity Analysts Estimate That the Economic Impact of Regulatory Policy Under the Trump Administration Was Modest

	Effects of Regulatory Policy Under the Trump Administration	Possible Regulatory Changes Under the Biden Administration
Industrials	● SAFE Vehicle Rule lowered fuel efficiency standards for vehicle models in 2021–2026, applying less regulatory pressure for auto makers to reduce emissions over the next few years ● Streamlining of environmental permitting for construction projects possibly contributed to an increase in construction spending	● Tighter fuel efficiency standards, expanded caps on EV tax credits ● Reinstatement of California's EPA waiver to set its own emissions standards (e.g., California has proposed banning sales of new internal combustion engine vehicles in 2035, and other states may follow) ● Slower environmental permitting for construction due to increased regulatory review
Energy	● Section 201 tariffs on imported solar cells raised solar panel prices ● Streamlining of environmental permitting had only a modest impact on pipeline construction due to delays from legal challenges and state governments ● Increased exemptions from the Renewable Fuel Standard provided a tailwind for small refineries	● Additional clean energy targets ● Reduced exemptions from the Renewable Fuel Standard for small refineries ● Restrictions or prohibition on drilling on federal lands ● Increased barriers to pipeline construction and permitting due to greater Democratic representation in key regulatory bodies such as the Federal Energy Regulatory Commission
Consumer and Retail Products	● Ban of all non-menthol/tobacco flavored e-cigarettes decreased e-cigarette sales ● Prohibition of the sale of tobacco to people under 21 had little effect since smokers aged 18–20 make up only a small share of the market	● Modest increases in consumer protection regulation for airlines ● Possibly a greater push for a cigarette menthol ban or federal nicotine cap
Healthcare	● Drug price rules have largely not gone into effect due to legal challenges ● Increased flexibility around telehealth and at-home treatments has modestly benefited providers	● Possibly additional drug price regulation
Technology, Media, and Telecom	● Repeal of net neutrality was not economically significant ● No substantial easing in anti-trust policy	● Reinstatement of net neutrality

Source: Goldman Sachs Global Investment Research

Biden's transition team recently stated that the new administration plans to reverse the "environmental rollbacks" of the past four years. Our analysts believe the Biden administration could enact stricter fuel efficiency standards and potentially expand or adjust caps on tax credits for electric vehicles, which they estimate could have a neutral to slightly positive impact on the earnings of electric vehicle-exposed auto suppliers and a neutral to modestly negative impact on the earnings of legacy manufacturers of internal combustion engine vehicles in the near term. Biden reportedly plans to cancel the Keystone XL Pipeline permit, and our analysts also expect the administration to increase solar energy growth targets, boosting earnings for U.S. solar companies. They also expect the Biden administration to strengthen regulatory review for environmental permitting—potentially decreasing infrastructure investment—and restrict or prohibit drilling on federal lands, as well as reduce small refineries' exemptions from the Renewable Fuel Standard, which would reduce their earnings. Other possible regulatory changes include the reinstatement of net neutrality and a modest increase in consumer protection regulation for airlines, both of which are unlikely to have major economic effects at the industry level.

The Biden transition team has also indicated that on his first day in office, Biden will issue a memo delaying or halting the Trump administration's "midnight regulations" that have not yet become effective. These include new rules that would reduce gas pipeline safety standards, exempt refineries and chemical plants from greenhouse gas regulations, and expand the definition of an independent contractor for the purpose of benefits and labor laws.

At the macroeconomic level, a moderate tightening in regulation under the Biden administration is likely to modestly increase regulatory costs, but the effect will likely be small in comparison to the large fiscal expansion that we expect.

Laura Nicolae

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