Insight

Regulatory Reform in Focus with Latest Budget

SAM BATKINS | MAY 23, 2017

The release of the Trump Administration's Fiscal Year 2018 Budget is more than just the fiscal figures; regulation takes center-stage throughout the document. In addition to the rhetoric on regulatory reform, touting up to $1.2 billion in annual savings from Congressional Review Act resolutions of disapproval, the administration assumed "cutting regulation" would lead to increased GDP growth. However, the extent of these contributions to economic output is somewhat unclear. There are some clues in the Budget: "Repealing Obamacare and its regulations on businesses will also increase employment, thereby increasing GDP and creating much needed economic growth."

In other areas, regulatory reform initiatives play major roles in generating lower federal deficits during the next decade. For example, "tort reform" is expected to save the federal government $55 billion from 2018 to 2027. Likewise, financial services reform could save $35 billion during the next ten years, according to the Budget projections. Here is the administration's explanation on financial reform: "While exact savings will be subject to the review's outcome, the Budget includes $35 billion in anticipated savings to be realized through reforms that prevent bailouts, foster vibrant financial markets, and reverse burdensome regulations that hinder financial innovation and reduce access to credit for American families."

There don't appear to be corresponding budget savings from reform of environmental and labor regulation, but the administration has made firm commitments on government-wide reform, noting "We must eliminate every outdated, unnecessary, or ineffective Federal regulation, and move aggressively to build regulatory frameworks that stimulate—rather than stagnate—job creation. Even for those regulations we must leave in place, we must strike every provision that is counterproductive, ineffective, or outdated."

With regard to the regulators themselves, and not the substance of new rules, the Budget calls for steep cuts to several agencies. For instance, the Environmental Protection Agency would lose 34 percent; Agriculture's budget is cut 20.5 percent; Education loses 13.5 percent and Health and Human Services faces a 16.2 percent reduction. The Defense Department would gain funds under the Budget, but they are not traditionally an active regulator.

The Budget does propose to spend money on the Consumer Financial Protection Bureau (CFPB), which is notable because CFPB was traditionally funded through the Federal Reserve, not general appropriations. According to the administration, "The Budget proposes to restructure the Consumer Financial Protection Bureau, limit the Agency's mandatory funding in 2018, and provide discretionary appropriations to fund the Agency beginning in 2019." The Budget proposes $650 million in 2019 and $683 million in 2020. For context, CFPB outlays were $584 million in 2016; estimated spending in 2017 was $677 million.

Since passage of Dodd-Frank, CFPB has always been a controversial agency. Although some have sought to shutter it altogether, others have at least wanted to turn its single political director into a multi-member board, the kind that dominate many independent agencies. The Budget makes clear that CFPB should receive general appropriations, not continued funds from another agency. It notes, "Furthermore, subjecting the reformed

Agency to the appropriations process would provide the oversight necessary to impose financial discipline and prevent future overreach of the Agency into consumer advocacy and activism."

Conclusion

As with every budget, Congress will have an important role in crafting domestic spending priorities. However, on regulatory policy, the administration can take the position that aggressive reform will generate additional economic growth, making it easier to finance tax cuts and increased military spending. However, fundamental reform of health care, the financial services industry, and energy policy will likely require Congress. Any administration-only attempts at reform might move the margins on regulation, but are unlikely to drive the economic output forecasted in the latest budget request.