

Budgetary Effects of a Regulatory Freeze

THE ISSUE

In the *Backgrounder* “Reducing Regulations Produces Strong Economic Growth Responses,” we produced estimates of the economic effects predicted with a freeze in federal regulations. This *Factsheet* contains estimates of the effect of a regulatory freeze on the federal budget. A freeze would mean no change in the current number of regulatory restrictions, which maintains restrictions below forecast levels.

We find that a regulatory freeze would reduce the federal deficit by \$1.1 trillion over the 2025–2034 budget window and \$1.4 trillion over the 2026–2035 budget window. Top line budgetary results are shown in Table 1. Changes in economic output and prices are shown in Table 2. Key rates are shown in Table 3.

Freezing regulation raises real gross domestic product (GDP) growth forecasts. By 2035, real GDP is 2.1 percent higher. Additionally, freezing regulation is disinflationary. By 2035, the Consumer Price Index is 3.6 percent lower. Disinflation is accompanied by reduced interest rates and lower interest expense. Revenues decrease slightly because of slower nominal personal income growth (though real adjusted personal disposable income increases). However, the significant reduction in expenses reduces the deficit over the budget window.

Congress should consider ways to constrain the growth in regulation as part of the reconciliation process. The potential economic and fiscal benefits are substantial. Should Congress request an official score from the Congressional Budget Office (CBO), the estimates in this *Factsheet* could serve as a guide.

HOW THE ECONOMIC AND BUDGETARY ESTIMATES WERE CONSTRUCTED

For these estimates, we used Standard & Poor’s (S&P) Global Insight US Economic Model, which the CBO uses to produce dynamic estimates of budgets and fiscal legislation. The S&P model does not have regulation as an input, so we translated our earlier results to fit the model.

Specifically, we captured the effects of a regulatory freeze through increased total factor productivity (TFP). TFP is calculated as a residual—the parts of output growth not explained by input growth—which includes unmeasured costs like regulatory compliance costs. Reduced regulatory compliance costs would mean that the same inputs can produce more output. Slower than forecast regulatory growth would mean faster TFP growth.

The estimates of real GDP, real investment, and hours worked from our previous model were the starting point. We used the median growth rates in each of the series to construct an estimate of total factor productivity using an equation similar to the process used by the Bureau of Labor Statistics. That equation produces TFP series in both baseline and alternate scenarios.

We translated the TFP series because S&P uses a slightly different production function in its model. Specifically, we take the ratio of TFP growth between the alternate and baseline scenarios from the earlier model and multiply that by the baseline TFP growth in the S&P model to produce a comparable alternate TFP series. The translation is good because it produces the same 1.8 percent increase in real GDP after 10 years that we forecast using our earlier model.

This paper, in its entirety, can be found at <https://report.heritage.org/fs281>

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TABLE 1

Federal Budget Projections

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2025– 2029	2025– 2034	2026– 2030	2026– 2035
Baseline	6,921	7,048	7,355	7,696	8,043	8,407	8,782	9,178	9,595	10,036	10,500	37,063	83,061	38,549	86,640
Total Operating Expenses	6,921	7,041	7,332	7,647	7,956	8,276	8,600	8,940	9,294	9,665	10,051	36,897	81,673	38,252	84,803
Difference	-1	-7	-23	-50	-87	-131	-181	-237	-301	-372	-449	-166	-1,389	-297	-1,838
Percent Difference	0.0%	-0.1%	-0.3%	-0.6%	-1.1%	-1.6%	-2.1%	-2.6%	-3.1%	-3.7%	-4.3%	-0.4%	-1.7%	-0.8%	-2.1%
Baseline	5,140	5,459	5,616	5,886	6,145	6,382	6,620	6,872	7,144	7,435	7,740	28,245	62,699	29,488	65,299
Total Receipts	5,139	5,461	5,623	5,892	6,139	6,356	6,571	6,810	7,073	7,351	7,637	28,254	62,415	29,471	64,912
Difference	0	2	7	6	-5	-26	-49	-62	-72	-84	-103	8	-285	-17	-387
Percent Difference	0.0%	0.0%	0.1%	0.1%	-0.1%	-0.4%	-0.7%	-0.9%	-1.0%	-1.1%	-1.3%	0.0%	-0.5%	-0.1%	-0.6%
Baseline	-1,782	-1,589	-1,739	-1,810	-1,898	-2,025	-2,162	-2,305	-2,451	-2,601	-2,761	-8,818	-20,362	-9,061	-21,341
Net Deficit	-1,782	-1,581	-1,710	-1,755	-1,817	-1,920	-2,030	-2,130	-2,222	-2,313	-2,414	-8,643	-19,258	-8,782	-19,890
Difference	0	8	30	55	81	105	132	175	229	288	347	175	1,104	280	1,451
Percent Difference	0.0%	-0.5%	-1.7%	-3.1%	-4.3%	-5.2%	-6.1%	-7.6%	-9.3%	-11.1%	-12.6%	-2.0%	-5.4%	-3.1%	-6.8%
Baseline	30,148	32,140	34,283	36,496	38,797	41,225	43,790	46,499	49,352	52,356	55,520	—	—	—	—
Debt Held by the Public	30,148	32,132	34,245	36,403	38,623	40,945	43,378	45,911	48,536	51,252	54,069	—	—	—	—
Difference	0	-8	-38	-93	-175	-280	-412	-587	-816	-1,104	-1,451	—	—	—	—
Percent Difference	0.0%	0.0%	-0.1%	-0.3%	-0.5%	-0.7%	-0.9%	-1.3%	-1.7%	-2.1%	-2.6%	—	—	—	—

NOTES: Numbers are by fiscal year. Debt numbers are levels at end of period.
SOURCE: Authors' calculations using S&P Global Insight US Economic Model.

TABLE 2

Output and Price Level Projections

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2025– 2029	2025– 2034	2026– 2030	2026– 2035
Real Gross Domestic Product	Baseline	0.7%	1.7%	1.6%	1.8%	1.7%	1.5%	1.6%	1.7%	1.7%	1.8%	7.5%	15.5%	8.3%	16.5%
	Alternative	0.8%	1.8%	1.7%	1.9%	1.9%	1.8%	1.9%	1.9%	1.9%	2.0%	8.1%	17.4%	9.1%	18.6%
	Percent Difference	0.0%	0.1%	0.1%	0.1%	0.2%	0.3%	0.3%	0.3%	0.2%	0.2%	0.6%	1.9%	0.8%	2.1%
Consumer Price Index	Baseline	4.0%	2.4%	1.6%	1.8%	2.0%	2.3%	2.3%	2.2%	2.2%	2.2%	11.9%	23.1%	10.1%	21.3%
	Alternative	4.0%	2.3%	1.4%	1.5%	1.5%	1.8%	1.8%	1.8%	1.7%	1.8%	10.6%	19.4%	8.4%	17.3%
	Percent Difference	0.0%	-0.2%	-0.3%	-0.4%	-0.4%	-0.5%	-0.5%	-0.5%	-0.5%	-0.4%	-1.2%	-3.6%	-1.7%	-4.0%
Personal Consumption Expenditures Price Index	Baseline	3.9%	2.1%	1.6%	1.6%	1.7%	2.0%	2.0%	2.0%	2.0%	2.0%	11.0%	21.0%	9.0%	19.1%
	Alternative	3.8%	1.9%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%	1.6%	9.7%	17.2%	7.3%	15.0%
	Percent Difference	-0.1%	-0.2%	-0.3%	-0.4%	-0.4%	-0.5%	-0.5%	-0.5%	-0.5%	-0.4%	-1.3%	-3.8%	-1.7%	-4.1%

NOTES: Annual numbers are the change from fourth quarter to fourth quarter. Summary numbers show the cumulative change over the selected time period.
SOURCE: Authors' calculations using S&P Global Insight US Economic Model.

TABLE 3

Unemployment and Interest Rate Projections

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Unemployment Rate	Baseline	4.4	4.9	5.1	4.9	4.5	4.3	4.2	4.1	4.1	4.1
	Alternative	4.4	5.0	5.2	5.1	4.7	4.5	4.3	4.1	4.0	3.9
	Difference	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.0	-0.1	-0.2
3-Month Treasury Rate	Baseline	4.2	3.2	2.6	2.6	2.8	2.8	2.8	2.8	2.8	2.8
	Alternative	4.2	3.2	2.6	2.6	2.8	2.8	2.7	2.7	2.7	2.7
	Difference	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
10-Year Treasury Rate	Baseline	4.3	4.0	3.9	4.0	4.0	4.0	3.9	3.9	3.9	3.9
	Alternative	4.3	4.0	3.9	3.8	3.8	3.8	3.7	3.6	3.6	3.6
	Difference	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3

NOTE: Numbers are annual averages.
SOURCE: Authors' calculations using S&P Global Insight US Economic Model.