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A Better Approach to Environmental Regulation: Getting the Costs and Benefits Right

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Background

- Cost-benefit analysis (CBA) forms the basis for sound regulatory policy. It allows for the maximum scope to improve social welfare.
- The regulatory process is the system in which regulations are considered, proposed, and ultimately finalized by an executive branch agency.
 - » Interagency review headed by the OMB's Office of Information and Regulatory Affairs (OIRA).

Problems with CBA

- Conceptual argument for using CBA is strong, but there are significant problems with how it is used in practice.
 - » Not enough attention on the validity of the empirical claims underlying most CBAs.
 - » Recent CBAs abandon the principle of consumer sovereignty.
 - » Not enough time allowed for CBA to inform regulatory decisions.

Proposal A:

Require a Checklist of Good Empirical Practices

- OMB/OIRA should require that agencies provide summary information about assumptions and findings, and information that assesses the *quality* of the underlying empirical studies.

Promote Decentralized Evaluations of CBA Data and Research

- Regulatory process should require ability to replicate results.

Proposal B:

Exclude Private Net Benefits from CBA for Energy-Efficiency Standards

- Energy-efficiency standards remove less energy efficient products from the marketplace.
- What are the consequences of such standards?
 - » Impacts on Environment:
 - Less Pollution (BENEFIT)
 - » Impacts on Consumers:
 - Assumption 1 (Traditional): Consumers worse off (COST)
 - Assumption 2 (Alternative): Consumers better off (BENEFIT)

Proposal B:

Exclude Private Net Benefits from CBA for Energy-Efficiency Standards

- Which assumption is right?
 - » Depends on whether consumers or regulators know better what consumers want.
- What happens if we get this wrong?
 - » We get less bang for the buck from our environmental regulations.

Proposal C:

Improve Regulatory Oversight Through an Early Review Process for Major Regulations

- The oversight process leaves little time for OMB/OIRA to conduct a thorough review of the analyses of regulations.
- OMB should adopt a formal early review process allowing 6 months for review.
- Allows time for compliance with CBA guidance, the regulatory checklist, the disclosure of data to promote replication, the decentralized public response to data and analyses, greater overall scrutiny of the CBAs, and consideration of multiple options.