

Consumer's Guide to Regulatory Impact Analysis: Ten Tips for Being an Informed Policymaker

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Regulatory Impact Analysis (RIA)

Tool regulators use to *guide* decisions, advice

(1) Social problem (2) policy alternatives, (3) benefits & costs

Executive Orders; Office of Management and Budget,

Office of Information and Regulatory Affairs

Benefit-Cost Analysis (BCA)

Organizational framework for identifying, quantifying, and comparing the costs and benefits (measured in money) of a proposed policy action.

Final decision is informed (though not necessarily determined) by a comparison of the total costs and benefits

Phaneuf “Benefit-Cost Analysis” in Haab & Whitehead (2014)

RIAs & BCA

Making the pie bigger



Tip 1 CORE PROBLEM

Determine whether the RIA identifies the core problem (compelling public need) the regulation is intended to address

Why is a market not working?

- externalities or information problem?
- Behavioral externalities – missing private gains?
- Empirical evidence specific to the core problem?
- How big is the problem?

Tip 2 ALTERNATIVES

Look for an objective, policy-neutral evaluation of the relative merits of reasonable alternatives

- Levels of stringency?
- Policy instruments? Standard, tax, subsidy, info
- Justify a predetermined regulatory action – not!
- All citizens and residents given standing?

Tip 3 BASELINE

Check whether the RIA presents a reasonable “counterfactual” against which benefits and costs are measured

- With regulation – without regulation = change
- Just trend? Other factors: energy prices?
- Sensitivity analysis includes various baselines based on different models?

Tip 4 INCREMENTS

Evaluate whether totals and averages obscure relevant distinctions and trade-offs

- Vary key elements → change in net benefits?
- Abatement: rising marginal costs or scale economies?
- Maximize net benefits, not just total $B > C$

Tip 5 UNCERTAINTY

Recognize that all estimates involve uncertainty. Ask what effect key assumptions, data, & models have on estimates

- Expected value of net benefits & distribution
- aleatory: inherent due probabilistic variability, Monte Carlo
- **epistemic**: due to lack of knowledge about relevant model, baseline
- “public health protective” → distortions, pie↓

Tip 6 TRANSPARENCY

Look for transparency and objectivity of analytical inputs

- Data, models, assumptions; external comparisons?
- Valuation often more precise than causality
- Alternative interpretations of scientific basis?

Tip 7 BENEFITS

Examine how projected benefits relate to stated objectives?

- Regulated change will *cause* change in targeted outcome? Quasi-experiment?
- Regulatee response is modeled in context of all factors that determine targeted outcome?
- If ancillary benefits dominate direct benefits, is a more direct regulation with direct benefits more efficient? (tail wag dog?)

Tip 8 COSTS

Understand what “costs” are included

- Opportunity costs
- Compliance costs often proxy
- Time costs? Vehicle inspection
- Performance costs?
- Having to settle for less than first choice;
consumer surplus loss

Tip 9 DISTRIBUTION

Consider how benefits and costs are distributed

- Do benefits and costs fall unevenly?
- Location in US & global? Age? Health conditions? Income? Race? Business size? Industry?
- Analysis allows for response to regulation and consequences?



Tip 10 Symmetrical Treatment

Ensure that benefits and costs are presented symmetrically

- Same baseline, time frame, discount rate for benefits and costs?
- Ancillary benefits and ancillary costs?

On Our Radar

- **Empirical evidence specific to the core problem?** Tip 1 Core Problem
- **Justify a predetermined regulatory action?**
Tip 2 Alternatives
- **Who is given standing?** Tip 2 Alternatives
- **Consider epistemic uncertainty due to lack of knowledge about relevant model, baseline** Tip 5 Uncertainty

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