



The Mechanics of Regulatory Impact Assessment: The U.S. Approach

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Regulatory Impact Assessment Technical Workshop

September 10, 2014

Agenda

What is Regulatory Impact Analysis (RIA)?

Key Elements of an RIA

- The need for regulatory action.
- Alternative regulatory approaches.
- Measuring benefits and costs of all alternatives.

Other Considerations



What is RIA?

Regulatory Impact Analysis (RIA) assesses the anticipated consequences a regulation and estimates associated benefits and costs.

- Helps to organize and consolidate all the possible impacts and elements for decisions at various stages of policy development
- Provides clear and transparent methodologies and criteria for new or existing regulations

RIA is a flexible and adaptable tool

- Its underlying analytical approach should always:
- Be proportional to the situation
- Follow consistent guidance for complexity and level of analysis



What are the Key Elements of a Regulatory Analysis?

The Need for Regulatory Action

Alternative Regulatory Approaches

Measuring Benefits and Costs of All Policy Alternatives



The Need for Regulatory Action

Market Failure or Other Social Purpose

Showing That Regulation is the Best Way to Solve the Problem

The Presumption Against Economic Regulation



Alternative Regulatory Approaches

- Informational Measures Rather than Regulation
- Market-Oriented Approaches Rather than Direct Controls
- Performance Standards Rather than Design Standards
- Different Degrees of Stringency
- Different Requirements for Different Sized Firms
- Different Choices Defined by Statute
- Different Compliance Dates
- Different Enforcement Methods
- Different Requirements for Different Geographic Regions



Measuring Benefits, Costs and Other Effects

Scope of the analysis

Timeline of the analysis

Developing a baseline

Estimating costs

Estimating benefits

- Using revealed preference data
- Using stated preference data
- Benefit transfer



Qualitative Discussion

Baseline Characterization

- Evolution of the market
- Changes in external factors affecting expected benefits and costs
- Changes in regulations promulgated by the agency or other government entities
- The degree of compliance by regulated entities with other regulation
- Potential to develop more than one baseline



Treatment of Uncertainty

Good practices:

- characterize probabilities of the relevant outcomes
- qualitative discussion of main uncertainties
- sensitivity analysis of assumptions, input data, etc.
- assign economic value to the projected outcomes

Where level of scientific uncertainty very high:

- if probabilistic approach not possible, evaluate discrete alternative scenarios using a range of plausible scenarios
- if uncertainty due to lack of data, evaluate additional research prior to rulemaking as an explicit regulatory alternative



Other Considerations

Discount Rates

- When benefits and costs are separated in time all future benefits and costs must be discounted.

Distributional Effects

- How both benefits and costs are distributed unevenly across population and time.

International Effects

- The U.S. approach (OMB Circular A-4, “Regulatory Analysis):
 - “Concerns that new U.S. rules could act as non-tariff barriers to imported goods should be evaluated carefully.” (p. 6)
 - “Your analysis should focus on benefits and costs that accrue to citizens and residents of the United States. Where you choose to evaluate a regulation that is likely to have effects beyond the borders of the United States, these effects should be reported separately.” (p. 15)



References

OMB Circular A-4:

http://www.whitehouse.gov/sites/default/files/omb/assets/regulatory_matters_pdf/a-4.pdf

RIA checklist:

http://www.whitehouse.gov/sites/default/files/omb/inforeg/regpol/RIA_Checklist.pdf

A-4 FAQ:

http://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a004/a-4_FAQ.pdf

Executive Order 12866: <http://www.whitehouse.gov/OMB/inforeg/eo12866.pdf>

Executive Order 13563:

http://www.whitehouse.gov/sites/default/files/omb/inforeg/eo12866/eo13563_01182011.pdf

Office of Information and Regulatory Affairs:

http://www.whitehouse.gov/omb/inforeg_default

