

MERCATUS CENTER  
GEORGE MASON UNIVERSITY

Ms. Susan Dudley  
Administrator, Office of Information and Regulatory Affairs  
Office of Management and Budget  
725 17th Street, NW  
Washington, DC 20503

Dear Ms. Dudley:

The Regulatory Studies Program of the Mercatus Center at George Mason University is dedicated to advancing knowledge of the impact of regulation on society. As part of its mission, the Regulatory Studies Program conducts careful and independent analyses employing contemporary economic scholarship to assess rulemaking proposals and reports from the perspective of the public interest.

We appreciate the invitation to comment on the Draft 2007 Report to Congress on the Cost and Benefits of Federal Regulations and hope that our comments will be useful to the Office of Management and Budget.

Sincerely,

Richard A. Williams, Ph.D.  
Managing Director, Regulatory Studies Program  
and Government Accountability Project

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Regulatory Studies Program  
Peer Review Comment on  
Draft 2007 Report to Congress on the  
Cost and Benefits of Federal Regulations<sup>1</sup>

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At the request of the Office of Management and Budget (OMB), this comment constitutes a peer review of the draft of the 2007 Report to Congress on the Cost and Benefits of Federal Regulations (hereafter referred to as “the Report”).<sup>2</sup> This review has been conducted by the Mercatus Center at George Mason University, an education, research and outreach organization that works with scholars, policy experts, and government officials to bridge academic theory and real-world practice.

The Report is the tenth annual report to Congress on the total benefits and costs of regulations in the United States. The Report is required by Congress as mandated in Section 624 of the Treasury and General Government Appropriations Act of 2001 (Pub. L. No. 106-554, 31 U.S.C. § 1105 note), which is commonly referred to as the Regulatory Right-To-Know Act. In a draft email charge to selected peer reviewers, OMB asked reviewers to respond to specific questions about this report:

- “A key feature of this report is the estimates of the total costs and benefits of regulations reviewed by the OMB in Chapter I. Similar to previous reports, the report includes a 10-year look-back of major Federal regulations reviewed by OMB to examine their quantified and monetized benefits and costs. Do you have any specific suggestions for modifying OMB’s approach to this accounting statement? Do you have any specific suggestions on how OMB could improve the reporting of the costs and benefits of Federal regulations in Chapter I?”
- In Chapter II, we provide an update on our ongoing historical examination of the trends in Federal regulatory activity. Cost estimates extend back to 1981, the beginning of the regulatory review program at OMB. In addition, Chapter II includes preliminary net benefit estimates for the years 1992 to 2006. Please comment on the usefulness of these measures and on the reasonableness of the assumptions that necessarily go into their construction. Do you have any specific suggestions for modifying OMB’s approach to

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<sup>1</sup> Prepared by Richard A. Williams, Ph.D., Managing Director, Regulatory Studies Program and Government Accountability Project, Mercatus Center at George Mason University. This comment is one in a series of comments from the Mercatus Center’s Regulatory Studies Program and does not represent an official position of George Mason University.

<sup>2</sup> [http://www.whitehouse.gov/omb/inforeg/2007\\_cb/2007\\_draft\\_cb\\_report.pdf](http://www.whitehouse.gov/omb/inforeg/2007_cb/2007_draft_cb_report.pdf)

this historical examination? Do you have any specific suggestions on how OMB could improve the reporting of the trends in costs and benefits of federal regulations?<sup>3</sup>

First, OMB has done a very credible job both reporting the total benefits and costs, particularly as they have changed as a whole over the last ten years. The report is well laid out and comprehensive. OMB is particularly commended for including analyses from independent agencies in this Report. These remarks are intended to answer the above questions and, in addition, make suggestions for future reports.

## **I. Past Mercatus Comments**

The Mercatus Center at George Mason University has commented numerous times through public interest comments on these reports. A selected summary of some of the key comments Mercatus has made in the past includes:

1. This report summarizes the total benefits and total costs of a small, select portion of benefit-cost analyses from agencies. However, these reported totals are inaccurate because the numbers presented are simply a compilation of unverified numbers that the agencies submitted to OMB. Mercatus has commented on this fact before. Mercatus previously stated: “The benefit and cost estimates in the draft report do not offer the American public an accurate picture of the impact of regulation.”<sup>4</sup> Furthermore, “There is little value added in simply compiling the unverified representations of agency management. Such an approach would be unthinkable when dealing with budget expenditures; OMB should make an effort to provide an independent view of agencies’ regulatory expenditures.”<sup>5</sup> In fact, OMB has continued to compile these unverified numbers and has not made any effort to provide an independent view of these estimates, including an overall estimate of the benefits and costs of all of the regulations.

2. OMB should hold agencies accountable both for following guidelines and reporting the extent to which that happens.<sup>6</sup> “OMB should hold agencies accountable for following new guidelines for regulatory analysis. . . . OMB should identify in a concise but comprehensive manner variations in agency methodologies used to estimate benefits and costs of individual regulations. It should present a “report card” for agency analyses that highlights their strengths and weaknesses.”<sup>7</sup>

3. OMB should try and improve the estimates that are presented. “OMB should report best (i.e., expected value) estimates of aggregate benefits and costs, in addition to ranges.” “The report should present OMB’s objective estimates of the benefits and costs of individual regulatory actions. These estimates should be based on consistent measurement techniques and a transparent explication of assumptions.” “At a minimum, OMB’s reports to Congress should provide more detailed information about the

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<sup>3</sup> Email note sent from Dr. Richard Theroux to Richard Williams

<sup>4</sup> Public Interest Comment submitted by the Mercatus Center on the Report to Congress, May 11, 2004, p. 1.

<sup>5</sup> Ibid. p. 4.

<sup>6</sup> Ibid. p. 1.

<sup>7</sup> Ibid. p. 9

assumptions underlying the benefit and costs estimates of the individual regulations that comprise the aggregate figures.”<sup>8</sup>

4. OMB should present all on-going benefits and costs, not just a ten-year retrospective. “OMB should continue to build its regulation-by-regulation database of the costs and benefits of regulations issued before April 1995. When OMB must rely on other aggregate estimates of benefits and costs, such as those in EPA’s Section 812 retrospective report, it should adjust them, as necessary, to correct for identified problems.”<sup>9</sup>

5. “OMB should present information on the effects of federal regulation on state and local entities.”<sup>10</sup>

6. “OMB should report aggregate costs and benefits in useful ways, e.g., by household, size of business, type of regulation, growth in burden, etc.”<sup>11</sup>

7. Finally, “There is much to be gained by considering the costs and benefits of regulations in categories, such as environmental or workplace regulation.”<sup>12</sup>

All of these same comments and suggestions are valid with respect to this report, and some will be repeated below.

OMB has asked for comments on the “objectivity” and “utility” of each chapter. These are part of the requirements that OMB must satisfy as part of the Information Quality Act (IQA). The four elements that any agency must address for information to be released to the public are: “quality, objectivity, utility, and integrity.” These remarks will focus on two aspects of the IQA: objectivity and utility. OMB asks for comment on two particular aspects of this report, improving the reporting of estimates of this years benefit and cost estimates as well as reporting of the trends in benefits and costs.

## **II. Objectivity of this Report**

The objectivity of the costs and benefits of federal regulations in Chapter I of this report and on the trends in costs and benefits of federal regulations are entirely dependent on the objectivity of the benefits and costs reported to OMB by the respective agencies. Presumably, these agencies are also governed by the IQA and must satisfy the same goals prior to releasing their analyses. However, it is impossible for an external observer to know whether the estimates that agencies have reported, and presumably have satisfied the dictates of the IQA, are in fact objective. By repeating them in this report, OMB is certifying presumptively that these estimates are determined objectively. However, OMB presents no information to support that conclusion, and experience suggests that agencies have an incentive to overstate benefits and understate costs.

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<sup>8</sup> Ibid.

<sup>9</sup> Public Interest Comment submitted by the Mercatus Center on the Report to Congress (Fourth), p. 1.

<sup>10</sup> Ibid, p. 2.

<sup>11</sup> Ibid, p. 2.

<sup>12</sup> Ibid, p. 4.

## OMB's approach to historical examination of regulations

As there are likely biases in the yearly reports of benefits and costs, simply adding up these benefits and costs over time increases the bias such that there is no reasonable way to draw conclusions about trends. Nevertheless, it would be extremely useful to try and estimate the total cumulative regulatory costs imposed on each industry sector. The total cumulative costs would be much more helpful than a ten-year analysis of the trends benefits and costs as, this would summarize both the total actual costs for both existing and potential entrants as well as the current benefits that society realizes. As now reported, a ten year summary of a very small and selected percentage (9% of reviewed and .07% of all) of regulations would appear to have very little utility.<sup>13</sup> Even as a trend, it is not enough data to show, for example, whether the overall course of regulations in the U.S. is producing regulations that are increasingly more or less efficient under a benefit –cost criteria (benefits minus costs).

## Suggestions for Measures for Objectivity

As suggested above, OMB simply repeats the estimates from agencies without any evidence that they are objective. If the analysis is not objective, this report is worse than useless: it is misleading and may lead to unfounded policy conclusions. There are, however, both indirect and direct measures that might be useful in ascertaining the objectivity of analyses.

### Indirect Indicators to Demonstrate Objectivity

Indirect measures are indicators that at least there is a potential for analysis to be objective. Indirect measures would establish that there are organizational and process conditions that are a prerequisite for objectivity. Obviously, the objectivity of regulatory analyses is difficult to determine from outside of the agencies that produce them. Although it is an indirect measure, a rigorous review process can help with producing objective estimates. One indirect measure of objectivity is the existence of a peer review function that would, to some degree, prevent management influence over analysis. Such reviews are possible at various stages in the process and could presumably be reported in the Report. These would include evidence of strong oversight from the Office of Information and Regulatory Affairs and independent peer review, such as is done by the Interagency Economic Peer Review (IEPR). OMB should report the extent to which RIAs have received some peer review, whether from the IEPR or through other mechanisms.<sup>14</sup>

In addition, the organizational independence of the analysts conducting the analysis within the agency (such as economists being organizationally separate from program offices) may be an indirect measure of the potential for objectivity. For example, the National Academy of Science's "Redbook placed great emphasis on the separation of risk

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<sup>13</sup> Draft 2007 Report to Congress on the Costs and Benefits of Federal Regulation, p. 10.  
[http://www.whitehouse.gov/omb/inforeg/2007\\_cb/2007\\_draft\\_cb\\_report.pdf](http://www.whitehouse.gov/omb/inforeg/2007_cb/2007_draft_cb_report.pdf)

<sup>14</sup> Only data and models are required to be peer reviewed under OMB's Peer Review Bulletin.

assessment from management.<sup>15</sup> (The author of this review also recently made this point applied to benefit-cost analysis.<sup>16</sup>)

Both peer review and organizational location of analysts are at best indirect indicators of the objectivity of benefit-cost studies. OMB should summarize studies in the Report as to whether these factors contribute to objective analysis and report by agency the extent of individual agency practices.

### Direct Measures of Objectivity

The work of outside scholars that measures the benefits and costs of the same regulatory options as was measured in *ex ante analysis* gives a more direct measure of the objectivity of regulatory analyses. At a minimum, OMB should examine and report on whether the agencies' analyses reflected and the most recent scholarly literature at the time the regulations were adopted.

Two additional kinds of analysis, however, are likely to become available after a regulation is actually in force. Scholarly analysis of the prospective effects of regulation will often be published with a lag because scholars may not know about the regulation until its adoption and the academic peer-review process can create long delays in publication. Therefore, much useful and informative analysis that projects the likely effects of a regulation may not become available until several years after the adoption of the regulation. In addition, after a regulation has been in place for several years, independent academics will often undertake research to ascertain the regulation's actual effects.

OMB's annual report on the benefits and costs of regulation should incorporate the results of both types of research. The *ex post* analysis is likely to be extremely useful in assessing ongoing benefits and costs. The *ex ante* studies should be helpful in comparison to agencies own analysis

Of course, scholarly studies of regulation do not always analyze particular major regulations. Some studies have a much wider scope, focusing on a bundle of related regulations enacted at different times, by the same agency, or in response to the same legislative mandate. The report should include the results of such studies since they would contribute to our knowledge of both the overall costs and benefits of regulation as well as the costs and benefits grouped by agency or program.

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<sup>15</sup> National Research Council, Committee on the Institutional Means for Assessment of Risks to Public Health, *Risk Assessment in the Federal Government: Managing the Process* (1983).

<sup>16</sup> "Integrated Analysis: Combining Risk and Economic Assessments While Preserving the Separation of Powers," R. Williams and K. Thompson, *Risk Analysis*, Volume 24 Issue 6 Page 1613-1623, December 2004.



HR1074hearing.pdf

### III. Utility of this Report

OMB has offered no evidence as to how this report has been used by Executive Branch agencies or Congress to: (1) develop better regulatory analyses; (2) to help make regulatory analysis more effective at shaping regulations; or, the ultimate goal, (3) to develop better regulations. If such evidence exists, OMB should make this information available in this Report. The original House report prior to enactment of the bill requiring this Report stated that the purpose of the Regulatory Right-to-Know Act is to:

- (1) promote the public right-to-know about the costs and benefits of Federal regulatory programs and rules;
- (2) increase Government accountability; and
- (3) improve the quality of Federal regulatory programs and rules.”<sup>17</sup>

Has this report ever advanced any of these purposes? It is difficult to know how, even theoretically, they might be achieved. First, OMB only reports on a small number of regulations and does not cover all regulatory agencies. Second, there is some evidence that agencies tend to overstate benefits and understate costs.<sup>18</sup> If so, this would mean that adding up benefits and costs into accounting totals would exaggerate an already misleading picture. Third, even if these numbers were complete and precise, which they are not, how could such numbers be used to improve the quality of Federal regulatory programs and rules, which address thousands of different kinds of social problems? It does not appear possible to draw a conclusion about the efficacy of various programs, agencies or regulations from large, total numbers of benefits and costs.

#### Suggestions for Improving the Utility of this Report

If constructed differently, this report might be of some utility improving regulatory analysis, improving the use of that analysis or improving regulations.

##### 1. Improving the Efficacy of Regulatory Analysis

There remains a great deal of uncertainty as to how effective regulatory analysis is in shaping effective and efficient regulations from agency to agency, particularly outside of executive branch agencies. For example, at the outset of the regulatory process within an agency, economists may be part of the development and decision process, and early analytical results may help to shape more efficient rules. Although the extent of the role economists play in helping to shape regulations is part of internal agency deliberations, some knowledge of how RIAs are used by government agencies to inform decisions would aid external observers in assessing the utility of these reports. It would be interesting to know, for example, in Appendix A, whether options selected for individual regulations economically efficient; i.e., were the ones that maximized net benefits or for which benefits at least exceeded costs. Presumably, OMB could report on the range of options analyzed, whether option that the agencies selected was the

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<sup>17</sup> Regulatory Right to Know Act of 1999 House Report.

<sup>18</sup> Besides the author’s personal experience with this phenomenon, there is academic literature that points to it. See, for example, Lutter, R. and Belzer R.B., “EPA Pats Itself on the Back,” *Regulation*, 23:3.

most effective and efficient (benefits minus costs) option, and the agency’s rationale for the selected option.<sup>19</sup>

Besides creating a competitive environment for better regulatory analysis, this information could also be used to evaluate the need for new or stronger laws requiring benefit-cost analysis. Such laws now exist for some areas of government regulation including the Unfunded Mandate Reform Act, the Safe Drinking Water Act Amendments of 1996 and the act that established the Office of Risk Assessment and Cost-Benefit Analysis in USDA.<sup>20</sup>

## 2. Altering the Information and Presentation in the Report

Presumably the law allows OMB some latitude as to the type, quantity, and format of the information it sends to Congress.<sup>21</sup> If constructed differently, this report could help agencies, and also help Congress in its oversight capacity of regulatory agencies, in several ways.<sup>22</sup>

2.1 Monitoring individual agencies – OMB could provide information that makes it easier to monitor individual agencies, which could, in turn, alter either budgets or authorizing legislation. Either change would depend on the effectiveness of agency rules as indicated by benefit-cost or cost-effectiveness analyses. Executive Order 12866, the order that mandates benefit-cost analysis for all significant regulations, requires only that the costs be “justified” by the benefits, not that an agency must choose options that maximize net benefits (benefits minus costs) or even that the chosen regulatory option has benefits that exceed the costs. Thus, the benefit-cost analysis is only a part, although an important part, of overall decision-making. One of the most significant ways that agencies can use benefit-cost analyses is to make adjustments to rules at the “margins.” Essentially, margins are component parts of rules, e.g., severity, coverage that are places where benefit-cost analysis can help to illuminate choices. Circular A-4 discusses these margins at length.<sup>23</sup>

2.2 Examining programs – As mentioned in previous Mercatus comments discussed above, OMB could take a programs (or “outcomes”) approach to reporting. Thus, rather than approaching oversight of the regulatory structure by agency, OMB could report benefits and costs of program such as “food safety” or “clean air.” Armed with this information on the progress of programs in terms of cumulative benefits toward specific

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<sup>19</sup> There are, of course, many valid reasons why heads of agencies choose options that are not the most effective or efficient, including legal and distributional reasons.

<sup>20</sup> The Unfunded Mandates Reform Act of 1995 established by Public Law 104-4, March 22, 1995 (see <http://www.sba.gov/advo/laws/unfund.pdf>); The Safety Drinking Water Act Amendments of 1995 established by Public Law 104-0182 (see <http://www.epa.gov/safewater/sdwa/summ.html>); and the Office of Risk Assessment and Cost-Benefit Analysis was created under The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law 103-354 (see [http://www.usda.gov/oce/risk\\_assessment/index.htm](http://www.usda.gov/oce/risk_assessment/index.htm)).

<sup>21</sup> In particular, presumably the law allows OMB the option to provide information beyond what the law stipulates,

<sup>22</sup> The law requires that OMB provide, “an estimate of the total annual costs and 17 benefits (including quantifiable and nonquantifiable effects) of Federal rules and paperwork, to the extent feasible:

(A) in the aggregate;  
(B) by agency and agency program; and  
(C) by “major rule.”

<sup>23</sup> OMB Circular A-4, page 7.



outcomes, the question could be asked, “At what point have regulations that attempt to carry out a program been either successful or unsuccessful measured against a well-defined criterion for success?” Comprehensive agency goals articulated in response to Government Performance and Results Act (GPRA) and the outputs reported in the Program Assessment Rating Tool (PART) could be coupled with regulatory benefits by OMB to measure how close to success an agency moves each year. This information could be used by the Executive Branch or Congress to judge agencies performance including questions such as a program was proceeding successfully toward a goal, had met the intended goal, or was no longer needed. Other judgments could be made with additional information as to whether the goal of the agency or program had changed with changing technology or social conditions; or whether the program was not succeeding in its mission.

The results of these decisions could, in turn be also used by Congress or the Executive Branch to discern whether to: (1) allow the program to continue in the existing agency; (2) move the mission to another agency (existing or new); (3) add new authorities to the existing agency; or, (4) decide that the mission had either succeeded or could not succeed and end the mission.

The information needed for this approach would go considerably beyond what OMB now includes in this report. First, the information would have to include a comprehensive assessment of the programs (such as those measures set by the Government Performance Results Act) for the success of each program. Additional information on outputs towards achieving those goals, such as is now reported by the Program Assessment Rating Tools would also have to be reported to show annual progress. Using this information, regulations could be evaluated as to how much of the goal(s) they were expected to accomplish, particularly in a cost-effective manner. Further, *ex post* analysis could be used to see if, in fact, agencies were closer to accomplishing their goals. An additional requirement would be to examine, as agencies came closer to achieving the goal, whether the marginal costs exceeded the marginal benefits of continuing.

2.3 Examining effects on competitiveness related to benefits – Yet another approach OMB may wish to take with this report is to examine whether the achievements of the regulations (benefits) justify the impact of their costs in terms of U.S. competitiveness, both nationally and internationally. Presumably, such an approach would entail examining the impact of regulations by industry sector. As noted in previous comments from the Mercatus Center (discussed above), the costs of current requirements and on-going costs from past years together are the actual regulatory impacts of regulations.<sup>24</sup> These impacts affect firms, consumers and stockholders, as well the ability of firms to

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<sup>24</sup> OMB has suggested in earlier comments that it does not see the value of examining past regulations in the statement by Don Arbuckle, “This would divert efforts to analyze the consequences of new policies and turn them instead to review of policies and programs that have been in existence for years, sometimes decades -- programs for which there have already been multiple opportunities to review and suggest changes.” STATEMENT OF DONALD R. ARBUCKLE, ACTING ADMINISTRATOR AND DEPUTY ADMINISTRATOR OFFICE OF INFORMATION AND REGULATORY AFFAIRS, OFFICE OF MANAGEMENT AND BUDGET, BEFORE THE COMMITTEE ON GOVERNMENTAL AFFAIRS, UNITED STATES SENATE, April 22, 1999.

remain in business. These accumulating costs also may present potential firms with ever growing barriers to entry into highly regulated sectors. In this context, a ten-year time frame has no meaning as there are likely to be on-going costs that go back decades. The actual costs of complying with these regulations would also include costs to prospective firms to read and interpret thousands of pages of the Code of Federal Regulations.

#### **IV. Other Comments**

##### Relationships between regulation and macroeconomic indicators

The section on Economic Growth and Related Macroeconomic Indicators is an excellent start at examining the relationship between the effects of regulation and the health and welfare of the nation. In addition, the current discussion of the relationship between economic freedom and prosperity is critical background for understanding the effects of regulation on economic growth and opportunity. It is vital, however, that this section make the link in a way that is relevant to understanding the effects of existing and proposed regulation in the United States. The discussion on pages 30-31 is important in this regard, because it focuses on studies of the relationship between regulation and macroeconomic variables in advanced, market-oriented economies. However, it is not clear if the studies discussed at the bottom of page 31 also focus on high-income countries or on all countries; this should be clarified. In addition, the report should emphasize that if there is a strong relationship between the level of regulation and macroeconomic variables, even when the sample is restricted to high-income countries, then many current regulatory debates in the US have significant consequences for our standard of living.

##### Adherence to Circular A-4

OMB and senior federal analysts have produced the most comprehensive and well-grounded theoretical guide to the practice of high quality regulatory analysis to date in the U.S. government in Circular A-4. Close adherence to these guidelines will help OMB produce a high quality and comprehensive report to Congress. OMB notes the Guidance was “designed to help analysts in the regulatory agencies by encouraging good regulatory impact analysis and standardizing the way that benefits and costs of Federal regulations are measured and reported.”<sup>25</sup> It is mentioned in this report that it is difficult to know whether independent agencies follow Circular A-4 but in fact, there is no mention in this report on degree of compliance by any agency. As mentioned earlier in other comments by Mercatus, development and reporting of a simple scoring mechanism could serve as a strong incentive to agencies, including independent agencies, to maintain a sufficient staff of highly trained analysts to consistently adhere to these guidelines.

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<sup>25</sup> Memorandum for the President’s Management Council from John D. Graham, “OMB’s Circular Number A-4, New Guidelines for the Conduct of Regulatory Analysis, March 2, 2004.

## Market Failure

There is one mention of market failure in this report (page 32). It would be useful to know how many regulations (by type and size) are promulgated to address market failure, how many are promulgated to address government failure, and how many are promulgated for other areas of national interest. This information could be used by scholars to determine which programs have regulations that primarily address problems other than market failure.

## Benefits reporting

Many regulations aim to achieve outcomes such as reductions in injuries or fatalities or improvements in environmental quality. OMB's report currently converts such benefits into monetary terms. This is a long established practice in economics and provides valuable information to allow the comparison of benefits and costs and should be continued. However, not all decision-makers who might use the information in OMB's report are comfortable with these conversions. Sorting regulations based on their intended outcome, and juxtaposing outcomes with costs, would provide useful information for many who are skeptical about monetization of benefits. Sorting regulations by outcome makes it possible to compare the effectiveness and cost-effectiveness of different regulations so that decision makers can better understand the relative effectiveness of different regulations.

Relevant outcomes include the benefits produced for the public or the harms avoided. Reduced injuries or fatalities are good examples of outcomes from health, safety, or environmental regulation. Lower prices or improved quality are good examples of outcomes from economic regulation (or deregulation). Enforcement activity, arrests, or changes in pollutant emissions are not outcomes; they are activities or outputs.

OMB could sort regulations by outcome using information in the agencies' original impact analyses, or it could utilize academic studies on *ex post* actual effects in the same ways suggested above. For each regulation, it would also be helpful to know whether the expected benefits were articulated clearly enough that the agency can actually measure progress in accomplishing the intended outcomes

## Information Quality Act

Two proxies for improvements in the quality of information issued by government are the number of peer reviews done and the number of appeals that are well grounded and lead to change. The table on page 39 appears to show that the Department of Health and Human Services received the largest number of correction requests in FY06 – 7. Although one could conclude that DHHS is the most problematic agency in this respect, it may also be the case that DHHS simply delivers proportionately more information that can be challenged. It would be helpful to have some measure to use as a denominator to determine whether this is the case. For example, it is also true that, as shown in Table 3-3, that DHHS performed the second highest number of both total peer reviews and reviews of highly influential scientific assessments.

## Unfunded Mandates Reform Act

As noted on page 50, UMRA requires that, for all rules subject to Section 202, agencies must, “select from among them (the options) the least costly, most cost-effective, or least burdensome option that achieves the objectives of the rule. Exceptions require the agency head to explain in the final rule why such a selection was not made or why such a selection would be inconsistent with the law.”<sup>26</sup> OMB then briefly discusses ten rules that were subject to this section. But there is no discussion of whether the above requirement was actually fulfilled and, if it was, which rules required the agency head to explain why a less costly burden was not selected.

## Summary of Key Recommendations

- 1) OMB should develop measures for the objectivity of individual agency estimates and report those measures to both improve these estimates and to be able to report improvements in these estimates from year to year. In addition, OMB should report by agency adherence to Circular A-4. Without these numbers, the objectivity of these estimates and the entire report are suspect. An important source of information of *ex post* regulatory costs and benefits is the work done by independent scholars that should be included.
- 2) OMB should report all costs by sector, both current and on-going, to give a sense of the overall costs that both existing and potential entrants must incorporate into their business decisions.
- 3) Trying to sum some portion of benefits and costs is not likely to produce useful outcomes, particularly in terms of producing better regulations. Reporting benefits and costs by program, along with measures of how the regulations and enforcement have advanced toward specific goals, would be much more useful to anyone interested in improving the performance of government. In addition, some notion of the total costs and the impacts of those costs by industry sector would also be useful in conjunction with other information to determine which sectors are most strongly impacted by regulations.
- 4) OMB should continue its excellent work in linking the effects of regulations to health and welfare effects of nations.

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<sup>26</sup> Page 50.