



## REGULATORY ANALYSIS: UNDERSTANDING REGULATION'S EFFECTS

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Chairman Issa, Ranking Member Cummings, and Members of the Committee:

Thank you for the opportunity to present this testimony. I am an economist and research fellow at the Mercatus Center, a 501(c)(3) research, educational, and outreach organization affiliated with George Mason University in Arlington, Virginia.<sup>1</sup> My principal research for the last 25 years has focused on the regulatory process and the effects of government regulation. For this reason, I'm delighted to testify on today's topic.

Federal regulation affects our quality of life and cost of living during every waking moment. When my clock radio went off this morning, the music traveled through a portion of the airwaves reserved by the Federal Communications Commission for FM radio broadcasts. The natural gas that heats our home traveled through interstate pipelines subject both to the Federal Energy Regulatory Commission's economic regulation and the Department of Transportation's safety regulation. The county treatment plant that supplies my faucet with water must meet standards set by the Environmental Protection Agency. I use a disposable razor to shave because my good one got confiscated when I tried to take it on an airplane. The canned pear halves my family ate for breakfast each weighed at least 17 grams, and the largest one in the can was no more than twice the size of the smallest one, thanks to Food and Drug Administration food standards.<sup>2</sup> On my way to work, I drop off my car at my mechanic's shop to get its emissions checked. And that's all just in the first hour of the day.

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<sup>1</sup> This testimony reflects only the views of its author and does not represent an official position of George Mason University.

<sup>2</sup> 21 CFR 145.175 (b)(1), available at <http://www.accessdata.fda.gov/scripts/cdrh/cfdocs/cfcfr/CFRSearch.cfm?fr=145.175>.

Yet that's enough time to illustrate the complex blend of federal regulations and their effects. Regulation runs the gamut from important things like air quality, water quality, and pipeline safety to seemingly trivial things like fruit size.

Overall, the effects of federal regulation are big. The Office of Management and Budget (OMB), relying on regulatory agency estimates, reports that major regulations it reviewed during the past ten years produced annual benefits worth between \$128 billion and \$616 billion, at a cost of between \$43 billion and \$55 billion. OMB readily admits that these figures are incomplete, because for some rules agencies do not calculate costs, or benefits, or both.<sup>3</sup> A report by Nicole V. Crain and W. Mark Crain for the Small Business Administration's Office of Advocacy pegs the total annual cost of regulation much higher, at \$1.75 trillion.<sup>4</sup> Appropriations for regulatory agencies provide another measure of the importance of federal regulation; Congress appropriated \$56.3 billion for regulatory agencies in fiscal 2010.<sup>5</sup>

We count on regulation to accomplish some important goals that private markets don't achieve. We also sacrifice a lot of other things to obtain the benefits regulation provides. Fundamentally, this is what much regulation does: it changes the mix of goods and services society produces and consumes.

The subject of today's hearing is regulation's effect on jobs. The Mercatus Center's director of policy research, Dr. Richard Williams, supplied a summary of academic research on this topic in response to a request from Chairman Issa.<sup>6</sup> Regulation can affect employment in two major ways. First, uncertainty about future regulation can prompt firms to delay investments until they have a better idea about what the "rules of the game" will be. This delayed investment delays job creation. Where there is either extended uncertainty or regulation that goes well beyond what other countries are doing, investment capital will find more stable or less onerous places to go, and the resulting jobs will be created overseas. Second, regulation can alter employment in particular industries by changing the mix of goods and services our economy produces. While the aggregate effect of particular regulations on overall employment is minimal, the effects on particular industries can be large.

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<sup>3</sup> Office of Management and Budget, *2010 Report to Congress on the Benefits and Costs of Federal Regulations and Unfunded Mandates on State, Local, and Tribal Entities*, [http://www.whitehouse.gov/sites/default/files/omb/legislative/reports/2010\\_Benefit\\_Cost\\_Report.pdf](http://www.whitehouse.gov/sites/default/files/omb/legislative/reports/2010_Benefit_Cost_Report.pdf).

<sup>4</sup> Nicole V. Crain and W. Mark Crain, "The Impact of Regulatory Costs on Small Firms," Report produced for the SBA Office of Advocacy under Contract No. SBA-HQ-08-M-0466, <http://www.sba.gov/sites/default/files/rs371tot.pdf>.

<sup>5</sup> Susan Dudley and Melinda Warren, *A Decade of Growth in the Regulators' Budget: An Analysis of the US Budget for Fiscal Years 2010 and 2011*. Washington, DC and St. Louis, MO: Regulatory Studies Center, The George Washington University, and Weidenbaum Center, Washington University in St. Louis, <http://www.regulatorystudies.gwu.edu/images/pdf/regbudget20100518.pdf>.

<sup>6</sup> Richard Williams, "The Impact of Regulation on Investment and the U.S. Economy," [http://mercatus.org/sites/default/files/publication/House%20Oversight%20Response%20on%20Regulations%20and%20Economy\[2\].pdf](http://mercatus.org/sites/default/files/publication/House%20Oversight%20Response%20on%20Regulations%20and%20Economy[2].pdf), posted January 11, 2011.

In economic jargon, regulation “reallocates resources.” In plain English, regulation destroys some jobs and creates others. Whether that’s a good thing or a bad thing depends on whether the particular regulation increases or decreases the total value to consumers of the goods and services we produce, including non-market “goods” like clean air or safety from terrorism.

For this reason, the first step in understanding how regulation affects those jobs is understanding how regulation affects the allocation of resources in the economy. That’s why sound regulatory analysis is a fundamental precondition for understanding how regulation affects jobs or anything else we care about.

Executive orders on regulatory review affect the ways executive branch agencies conduct regulatory analysis and the ways they use regulatory analysis to make decisions. On January 18, President Obama issued Executive Order 13563, “Improving Regulation and Regulatory Review.”<sup>7</sup> I would like to address three principal aspects of Executive Order 13563 that may affect the quality and use of regulatory analysis by federal agencies:

1. The executive order reaffirms longstanding standards and regulatory review processes that have been in force since 1993.
2. It requires agencies to develop plans for retrospective analysis of existing rules.
3. It adds “human dignity” to the list of qualitative values agencies should consider and directs agencies to consider regulatory approaches that “maintain flexibility and freedom of choice for the public.”

All of these are positive developments. But scholarly research on regulatory analysis, including the Mercatus Center’s own Regulatory Report Card, suggests that agency regulatory analysis needs substantial improvement. The executive branch and Congress could do much more to ensure that regulatory agencies conduct high-quality analysis and use it to inform their decisions.

The body of my testimony contains detailed recommendations to accomplish these goals. Let me briefly summarize:

**Regulatory review.** Regulatory analysis needs to be encouraged, enforced, and required for all federal agencies. Agency economists should have the independence to conduct objective analysis. Agencies should publish regulatory analysis before writing proposed regulations and explain transparently how the analysis affected their decisions when they issue regulations.

**Retrospective analysis.** OMB and congressional oversight committees should enforce the provisions of the GPRA Modernization Act of 2010 that require agencies to identify regulations

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<sup>7</sup> Executive Order 13563, “Improving Regulation and Regulatory Review,” *Federal Register* 76:14 (Jan. 21, 2011), 3821-23, [http://www.whitehouse.gov/sites/default/files/omb/inforeg/eo12866/eo13563\\_01182011.pdf](http://www.whitehouse.gov/sites/default/files/omb/inforeg/eo12866/eo13563_01182011.pdf).

that contribute toward their high-priority goals and periodically review their performance. Congress can encourage this by attaching real budget consequences to agencies' failure to meet their goals over a sustained period of time. To ensure that regulations receive objective, fundamental review, Congress should establish an independent body, perhaps modeled after the Base Realignment and Closure Commission, to evaluate existing regulations and recommend ineffective ones for elimination.

**Human dignity and freedom of choice.** This language in the executive order suggests a new, welcome emphasis on assessing regulation's effects on personal liberty. The benefits or costs uniquely attributable to regulation's effects on personal liberty have not been incorporated very well into agency regulatory analysis or OMB guidance, and further research may be required to figure out how. In the meantime, the administration (or Congress) can create a presumption in favor of personal liberty by requiring agencies to first analyze and consider the regulatory options that impose the least restrictions on personal liberty.

## 1. Review of New Regulations

Executive Order 13563 "reaffirms the principles, structures, and definitions governing contemporary regulatory review that were established in Executive Order 12866." In fact, Executive Order 12866 reaffirmed the principles originally established 30 years ago with Executive Order 12991. This reaffirmation is welcome. The analytical principles in Executive Order 12866 and OMB's accompanying guidance in Circular A-4<sup>8</sup> are sound. The administration's reaffirmation of those principles may help quell some uncertainty about future standards for regulatory review that has existed since the administration announced in January 2009 that it planned to revise the executive order.<sup>9</sup>

Unfortunately, presidential executive orders on regulatory review have had a limited effect on the quality and use of regulatory analysis. Case studies have revealed instances in which regulatory analysis helped improve regulatory decisions by providing additional options regulators could consider or unearthing new information about benefits or costs of particular modifications to the regulation.<sup>10</sup> But all too often, agency economists have to conduct regulatory analysis after most major decisions about regulations have already been made. The

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<sup>8</sup> Office of Management and Budget, Circular A-4, "Regulatory Analysis" (Sept. 17, 2003), [http://www.whitehouse.gov/sites/default/files/omb/assets/regulatory\\_matters\\_pdf/a-4.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/regulatory_matters_pdf/a-4.pdf).

<sup>9</sup> Office of Management and Budget, "Federal Regulatory Review: Request for Comments," *Federal Register* 74:37 (Feb. 26, 2009), 8819, [http://www.reginfo.gov/public/jsp/EO/fedRegReview/OMB\\_FR\\_Notice\\_on\\_Regulatory\\_Review.pdf](http://www.reginfo.gov/public/jsp/EO/fedRegReview/OMB_FR_Notice_on_Regulatory_Review.pdf).

<sup>10</sup> Winston Harrington, Lisa Heinzerling, and Richard D. Morgenstern (eds.), *Reforming Regulatory Impact Analysis* (Washington, DC: Resources for the Future, 2009); Richard D. Morgenstern, *Economic Analyses at EPA: Assessing Regulatory Impact* (Washington, DC: Resources for the Future, 1997); Thomas O. McGarity, *Reinventing Rationality: The Role of Regulatory Analysis in the Federal Bureaucracy* (New York: Cambridge University Press, 1991).

analysis then becomes an advocacy document written to justify the agency's decisions, or a mere paperwork exercise to fulfill requirements imposed by the OMB. Surveying the scholarly evidence on regulatory analysis, Robert Hahn and Paul Tetlock conclude that economic analysis has not had much impact, and the general quality of regulatory analysis is low. "Nonetheless," they note, "in a world where regulatory impacts are frequently measured in the billions of dollars, margins matter. Thus, economists should pay more attention to how economic analysis can contribute to improving benefits and costs on the margin."<sup>11</sup>

In many cases, regulatory impact analyses are not sufficiently complete to serve as a guide to agency decisions. Since 2008, the Mercatus Center Regulatory Report Card has assessed the quality and use of regulatory analysis for proposed, economically significant regulations issued by executive branch agencies.<sup>12</sup> We assess how well the agency defines and measures the outcome the regulation is supposed to produce, identifies and provides evidence of a market failure or other systemic problem the regulation seeks to solve, assesses alternative approaches, and identifies the costs and benefits of the regulation. We evaluate the transparency, clarity, and documentation of models and data in the analysis. Finally, we assess the extent to which the agency used the analysis to make decisions and made provisions for retrospective analysis of the regulation. In short, we examine how well the agency complies with the major provisions of Executive Order 12866.

The attached paper I coauthored with John Morrall, a 29-year veteran of the Office of Information and Regulatory Affairs who joined Mercatus as an affiliated senior scholar in 2010, summarizes the Regulatory Report Card results for 2008 and 2009. We assign a score to economically significant rules ranging from 0 to 5 points on 12 different criteria, for a total possible score of 60 points. In both 2008 and 2009, agency regulatory analyses earned an average of about 27 out of a possible 60 points, or 45 percent. If these were student papers, the average would be an "F." The highest score in 2008 was 43 points (72 percent). The highest score in 2009 was 48 points (80 percent).<sup>13</sup> These findings are consistent with previous studies by academics and the Government Accountability Office that assess how well regulatory agencies comply with the executive orders governing regulatory analysis.<sup>14</sup>

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<sup>11</sup> Robert W. Hahn and Paul C. Tetlock, "Has Economic Analysis Improved Regulatory Decisions?," *Journal of Economic Perspectives* 22:1 (Winter 2008), 67-84.

<sup>12</sup> [www.mercatus.org/reportcard](http://www.mercatus.org/reportcard).

<sup>13</sup> Jerry Ellig and John Morrall, "Assessing the Quality of Regulatory Analysis: A New Evaluation and Data Set for Policy Research," Working Paper, Mercatus Center at George Mason University (Dec. 2010), <http://mercatus.org/publication/assessing-quality-regulatory-analysis>.

<sup>14</sup> See Art Fraas and Randall Lutter, "The Challenge of Improving the Economic Analysis of Pending Regulations: The Experience of OMB Circular A-4," Resources for the Future Discussion Paper 10-54 (December 2010); Jamie Belcore and Jerry Ellig, "Homeland Security and Regulatory Analysis: Are We Safe Yet?," *Rutgers Law Journal* (Fall 2009), 1-96; Robert W. Hahn, Jason Burnett, Yee-Ho I. Chan, Elizabeth Mader, and Petrea Moyle, "Assessing Regulatory Impact Analyses: The Failure of Agencies to Comply with Executive Order 12,866," *Harvard Journal of Law and Public Policy* 23:3 (2001), 859-71; Robert W. Hahn, and Patrick Dudley, "How Well Does the Government Do Cost-Benefit Analysis?" *Review of Environmental Economics and Policy* 1:2 (2007), 192-211; Robert W. Hahn, and Robert Litan, "Counting Regulatory Benefits and Costs: Lessons for the U.S. and Europe,"

Table 1 shows average scores on each of our 12 criteria in 2008 and 2009. In general, the analyses score the best on the criteria that are easiest to satisfy, such as accessibility via the Internet, documentation of data and models, and clarity (Criteria 1–4).

One of the major areas where regulatory analysis is weakest is identification of the systemic problem the regulation is supposed to solve (Criterion 6). This is a key weakness. A systemic problem is a widespread problem that can be traced to a defect in the “rules of the game” that govern behavior—as opposed to the faults of a few “bad actors” that can be dealt with on a case-by-case basis. If the agency cannot identify and demonstrate the existence of a systemic problem that a regulation might solve, how can it assess whether the regulation is likely to solve the problem, or identify alternative solutions that might be more effective? Given the low score on this criterion, it is perhaps not surprising that average scores are also relatively low on other criteria that assess the “meat and potatoes” of the analysis—definition of the outcome the regulation is supposed to accomplish (Criterion 5), identification and assessment of alternatives (Criterion 7), and assessment of costs and comparison of costs with benefits (Criterion 8).

**Table 1: Average Quality of Regulatory Analysis is Low**

<b>Criterion</b>	<b>2008 Average Score</b>	<b>2009 Average Score</b>
<b>Openness</b>		
1. Accessibility	3.53	4.06
2. Data documentation	2.24	2.50
3. Model documentation	2.33	2.62
4. Clarity	2.93	2.83
<b>Analysis</b>		
<b>5. Outcome definition</b>	<b>2.36</b>	<b>2.38</b>
<b>6. Systemic problem</b>	<b>1.80</b>	<b>1.60</b>
<b>7. Alternatives</b>	<b>2.29</b>	<b>2.21</b>
<b>8. Benefit-cost analysis</b>	<b>2.09</b>	<b>2.19</b>
<b>Use</b>		
9. Some use of analysis	2.44	2.24
10. Considered net benefits	2.20	1.62
11. Measures and goals	1.36	1.29
12. Retrospective data	1.73	1.50
<b>Total</b>	<b>27.31</b>	<b>27.02</b>

Maximum possible score on each criterion is 5 points.

Maximum possible total score is 60 points.

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*Journal of International Economic Law* 8:2 (2005), 473-508; Robert W. Hahn, Randall W. Lutter, and W. Kip Viscusi. *Do Federal Regulations Reduce Mortality?* Washington, DC: AEI-Brookings Joint Center for Regulatory Studies (2000); Government Accountability Office, *Regulatory Reform: Agencies Could Improve Development, Documentation, and Clarity of Regulatory Economic Analyses*, Report GAO/RCED-98-142 (May 1998); Government Accountability Office, *Air Pollution: Information Contained in EPA’s Regulatory Impact Analyses Can Be Made Clearer*, Report GAO/RCED 97-38 (April 1997).

Few of the scores on individual criteria changed much between 2008 and 2009. We find some evidence that scores improved on some of the openness criteria, such as accessibility and documentation, consistent with the Obama administration's focus on transparency in the regulatory process. On average, explanations of how regulatory costs affect prices of goods and services also improved. Very modest improvements occurred in evidence of regulatory benefits and analysis of the distribution of benefits. In general, these changes involved improvements from poor scores to middling scores. This is why the score on Criterion 8, Benefit-cost analysis, increased slightly.

The Regulatory Report Card research team also searches the *Federal Register* notice for the proposed regulation to see if there is any evidence that the agency used information about the systemic problem, projected regulatory outcomes, alternatives, benefits, or costs to make decisions. We do not expect the analysis to dictate the decision via a rigid rule, such as "regulate only when monetized benefits exceed monetized costs." Section 1 of Executive Order 12866 explicitly instructs agencies to regulate only when the benefits "justify" the costs, unless the law requires another approach. Thus, the results of the regulatory analysis are supposed to inform the decision, not determine the decision. Indeed, information about projected benefits or regulatory alternatives could affect the agency's decision even if the agency is prohibited from considering costs (as with rules implementing the Clean Air Act). In these kinds of situations, we give agencies credit for using parts of the analysis, even if the agency did not use, or was prohibited from using, information about costs.

We look to see whether any of the information prepared for the regulatory analysis appears to have had any effect on the agency's decisions. We have found examples where agencies explicitly credit the regulatory analysis for affecting some significant decisions. This approach might generate some "false positives" by giving agencies credit for using the analysis even when decisions were made for other reasons. Nevertheless, the average scores on our Use criteria are relatively low—less than 2.5 out of a possible 5 points on each of these criteria. Even under our relatively liberal definition of "use," agencies claim to use the regulatory impact analysis for significant decisions only about 20 percent of the time at best:

- In 2008, agencies claimed the analysis affected a major decision for only 10 out of 45 proposed regulations.
- In 2009, analysis affected a major decision for only 9 out of 42 proposed regulations.
- In 2008, agencies chose the alternative that maximized net benefits or explicitly explained why they chose another option for 11 regulations.
- In 2009, they did so for 6 regulations.

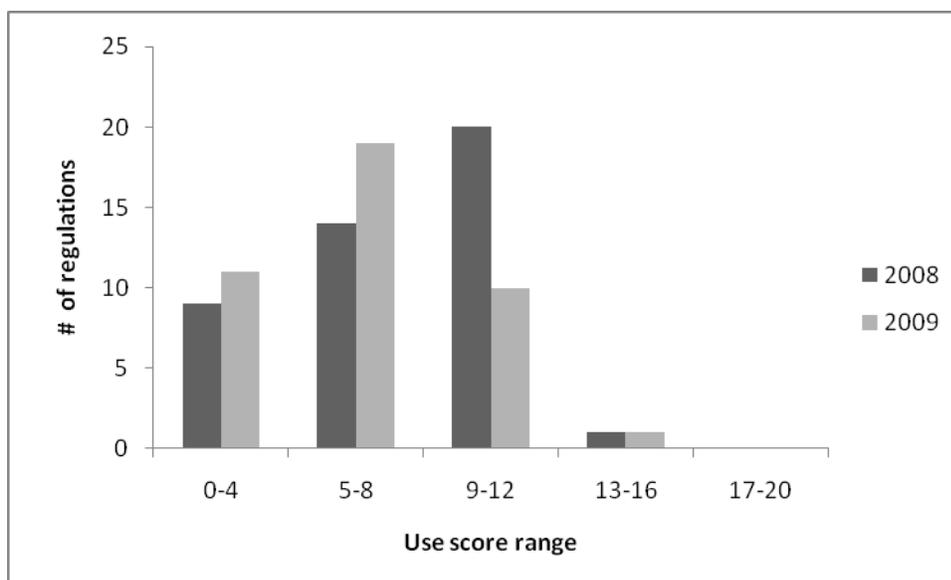
Scores are even lower on Criteria 11 and 12, which indicate whether the agency commits to using the results of regulatory analysis in the future by establishing goals and measures for the regulation's outcomes and tracking data to measure the regulation's performance. In a few cases, agencies do articulate goals for regulations, explain how regulations are linked to agency

strategic goals under the Government Performance and Results Act, commit to gathering data for retrospective evaluation, or commit to some form of retrospective review in the future. Usually, however, they say little about this.

The use of analysis in regulatory decisions decreased in 2009. This result is apparent from the average scores on Criteria 9–12 for 2008 and 2009. It becomes even stronger when we perform econometric analysis that controls for the quality of regulatory analysis and the shift in the mix of regulations proposed in the two years.

However, it would be a mistake to portray the first year of the Obama administration as a retreat from stellar use of analysis in the Bush administration. Figure 1 shows the distribution of Use scores in 2008 and 2009. Neither year shows more than middling use of analysis. The principal difference is that the middle class shrinks in 2009, with more proposed regulations that either fail to use the analysis or make only a passing reference to it. If agencies do not specifically let the public know how or whether they have used these analyses, the public is left largely in the dark about how their decisions were made.

**Figure 1: Distribution of Scores for Use of Regulatory Analysis, 2008 and 2009**



The good news is that for every criterion, a few regulatory analyses received a score of “5” for employing potential best practices, as table 2 shows. The line of table 2 labeled “Theoretical Highest Score” shows the score that could have been achieved in each year if one analysis had incorporated all of the best practices. Clearly, there is potential for tremendous improvement in the quality of regulatory analysis simply through better dissemination of best practices across agencies.

The *knowledge* required to produce better regulatory analysis exists, dispersed throughout agencies in the federal government. OMB Circular A-4 also summarizes a great deal of this knowledge. What's lacking are institutional *incentives* to produce good analysis.

**Table 2: Diffusion of Best Practices Could Greatly Improve Average Quality**

Criterion	2008 Average Score	2008 Highest Score	2008 # Earning Highest Score	2009 Average Score	2009 Highest Score	2009 # Earning Highest Score
<b>Openness</b>						
1. Accessibility	3.53	5	12	4.06	5	14
2. Data documentation	2.24	5	1	2.50	5	5
3. Model documentation	2.33	5	3	2.62	5	1
4. Clarity	2.93	5	3	2.83	4	10
<b>Analysis</b>						
<b>5. Outcome definition</b>	<b>2.36</b>	<b>5</b>	<b>2</b>	<b>2.38</b>	<b>5</b>	<b>1</b>
<b>6. Systemic problem</b>	<b>1.80</b>	<b>5</b>	<b>1</b>	<b>1.60</b>	<b>4</b>	<b>4</b>
<b>7. Alternatives</b>	<b>2.29</b>	<b>5</b>	<b>1</b>	<b>2.21</b>	<b>5</b>	<b>1</b>
<b>8. Benefit-cost analysis</b>	<b>2.09</b>	<b>4</b>	<b>3</b>	<b>2.19</b>	<b>5</b>	<b>1</b>
<b>Use</b>						
9. Some use of analysis	2.44	5	2	2.24	5	1
10. Considered net benefits	2.20	5	2	1.62	5	4
11. Measures and goals	1.36	5	1	1.29	4	1
12. Retrospective data	1.73	5	1	1.50	4	2
Total	27.31	43		27.02	48	
Theoretical Highest Score*		59			56	

Maximum possible score: 60 points.

For this reason, it is not enough for the administration to reaffirm the analytical methods and approach to regulatory review embodied in Executive Order 12866. The administration and Congress can both take further steps to ensure that all federal agencies conduct high-quality analysis of major proposed regulations and seriously consider the results of that analysis when they make regulatory decisions:

***OIRA needs to enforce analytical standards by returning regulations with inadequate analysis.***

Within the administration, OIRA is supposed to serve as a regulatory gatekeeper, ensuring that agencies conduct high-quality regulatory analysis and consider it seriously. OIRA can enforce Executive Order 12866 by returning regulations to agencies for further analysis. Yet OIRA has not returned a regulation to an agency since January 6, 2009, during the final days of the Bush

administration.<sup>15</sup> The Mercatus Regulatory Report Card finds that many regulatory analyses have significant flaws and the quality of regulatory analysis appears to be unchanged since the Bush administration. Given those findings, it's curious that not a single regulation has been returned in two years. This signals that agencies can expect OIRA to rubber-stamp proposed regulations.

***Agencies should be required to explain in the preambles to proposed and final rules whether or how they made use of the regulatory analysis.*** For 2008 and 2009, the agency regulatory analysis appears to have affected some regulatory decision for only about one-fifth of the proposed regulations. Either agencies ignore the regulatory analysis in the vast majority of cases, or they do not explain publicly how they have used it. At worst, the analysis often has little effect. At best, there is a significant transparency problem: agencies may be using the analysis without disclosing how. Either problem could be mitigated if OIRA refused to approve regulations that failed to explain how the analysis did or did not affect the decisions, or if Congress directed agencies to supply such explanations. Alternatively, Congress could amend the Administrative Procedures Act so that regulations issued without an explanation of the role of the regulatory analysis would be considered “arbitrary and capricious.”

***Agencies should be permitted to consider all aspects of the regulatory analysis when making decisions, but not required to follow a rigid decision rule.*** Executive Order 12866 directs agencies to consider, when making regulatory decisions, “incentives for innovation, consistency, predictability, the costs of enforcement and compliance (to the government, regulated entities, and the public), flexibility, distributive impacts, and equity.” Agencies are to “propose or adopt a regulation only upon a reasoned determination that the benefits of the intended regulation justify its costs.”<sup>16</sup> As the executive order recognizes, there are some very good reasons that agencies should not always be required to pick the regulatory option that maximizes the difference between monetized benefits and monetized costs. Unquantified values or other important public purposes may in some cases trump benefit-cost calculations.

In some cases, however, legislation prohibits agencies from considering certain effects of regulation, such as costs. There is much less justification for forcing some agencies to “fly blind” by prohibiting them from even considering some types of information from the regulatory impact analysis when making important decisions. Such prohibitions mandate ignorance.

***Agency economists should have the independence to conduct objective analysis.*** Reality isn't optional. The goal of regulatory analysis is to produce knowledge about reality that can inform decisions. Interviews with agency economists reveal that they often face pressure to modify their analysis to support decisions that others in the agency have already made.<sup>17</sup> One way to promote

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<sup>15</sup> <http://www.reginfo.gov/public/do/eoReturnLetters>.

<sup>16</sup> Executive Order 12866, Secs. 1(5) and 1(6).

<sup>17</sup> Richard Williams, “The Influence of Regulatory Economists in Federal Health and Safety Agencies,” Working Paper, Mercatus Center at George Mason University (July 2008), [http://mercatus.org/sites/default/files/publication/WP0815\\_Regulatory%20Economists.pdf](http://mercatus.org/sites/default/files/publication/WP0815_Regulatory%20Economists.pdf).

objective analysis is to separate economists from the program offices that propose regulations. Economists' work should be evaluated by other economists, with compensation and career advancement depending on the quality of their analysis—not on whether the analysis supports decisions the agency has already made for other reasons.

***Agencies should produce and publicize regulatory impact analysis before writing the regulation.*** Executive Order 12866 requires agencies to consider a wide range of regulatory options. Regulatory impact analysis can reveal the consequences of different options decision makers face. Yet all too often, the regulatory impact analysis gets produced after key decisions have already been made. The timing also effectively gives the federal government a monopoly on producing regulatory impact analyses and inhibits the public's ability to affect the quality of the analysis when it might actually affect agency decisions. Both problems could be mitigated if agencies were required to conduct and publish regulatory impact analyses (along with all underlying studies and data) for public comment before the proposed regulation is actually written. Agencies would have analysis of regulatory alternatives before they chose which alternative to pursue. In addition, the public would have the opportunity to replicate, improve, and comment upon the agency's economic analysis before the agency uses the analysis to make decisions. (This could be considered part of the advance consultation with stakeholders encouraged by Section 2 President Obama's new executive order.)

***Regulatory analysis requirements should apply to independent agencies.*** No administration has sought to apply the regulatory analysis requirements in executive orders to independent agencies, such as the Federal Communications Commission, the Commodity Futures Trading Commission, or the new Consumer Financial Protection Bureau. Yet these agencies issued 94 major regulations during the past 10 years.<sup>18</sup> In some cases, such as the Consumer Product Safety Commission and the Securities and Exchange Commission, Congress has seen fit to require some form of economic analysis when agencies issue significant regulations. Such requirements should be standardized and applied to all independent agencies. In addition, there should be an enforcement mechanism at least as strong as OIRA review before these agencies can issue regulations. If Congress does not want to vest this review function in the executive branch, it should create an independent regulatory review commission whose primary mission is to ensure the quality and integrity of agency economic analysis.

## **2. Retrospective Analysis**

Section 6 of Executive Order 13563 requires agencies to develop preliminary plans for periodic retrospective review of existing significant regulations. A similar requirement appears in Section 5 of Executive Order 12866, as well as Section 610 of the Regulatory Flexibility Act of 1980; thus, agencies were already supposed to have these plans in place since at least 1993. In many cases, legislation also requires agencies to conduct period review of specific types of regulations or regulations issued under the authority of particular legislation.

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<sup>18</sup> OMB, *supra* note 3, Appendix C.

Unfortunately, putting agencies in charge of retrospective review of their own regulations rarely produces the kind of zero-based, sweeping reassessment necessary to determine whether a regulation is still needed, effective, cost-effective, and efficient. Agencies face at least two obstacles to effective in-house retrospective review. First is the natural human tendency to resist admitting that our past decisions might have been wrong. Second is the set of incentives facing entrenched stakeholders who have already made the expenditures to comply with the regulation. I've personally spoken with federal officials who wanted to do retrospective regulatory review but were frustrated by the lack of public input. Business firms in particular may be reluctant to recommend or support changes in regulations that might make it easier for new competitors to enter their markets by reducing the up-front costs of regulatory compliance. They may also worry about what regulations will replace the ones taken away in the future. For this reason, agencies may receive little or no input from regulated entities when they publish *Federal Register* notices soliciting suggestions for regulations they should review.

Regulatory agencies conduct numerous retrospective reviews of regulations, but these reviews only occasionally provide ex post estimates of costs and benefits of either the regulation or of possible alternatives. A recent Government Accountability Office report found that nine federal agencies conducted more than 1,300 regulatory reviews between 2001 and 2006, of widely varying scope. The report notes, "Our limited review of agency summaries and reports on completed retrospective reviews revealed that agencies' reviews more often attempted to assess the effectiveness of their implementation of the regulation rather than the effectiveness of the regulation in achieving its goal."<sup>19</sup>

Congress annually requires the Office of Management and Budget to produce a report on the benefits and costs of major existing regulations.<sup>20</sup> So little actual retrospective analysis exists, however, that OMB's annual report has to rely on the benefit and cost figures agencies projected in their regulatory impact analyses when they issued the regulations. Rather than providing a genuinely retrospective review of the benefits and costs of regulation (which was presumably Congress's intent), the report summarizes the predictions agencies made for major regulations issued during the prior ten years.

International comparisons also suggest that retrospective analysis by U.S. regulatory agencies is weak. The Organization for Economic Cooperation and Development (OECD) periodically produces reports that compare regulatory management practices in member nations. The assessment includes a survey of member nations' ex post regulatory review procedures. Each country receives a score ranging from zero to eight based on its responses to a series of questions about retrospective regulatory review. The average score was 4.5; only one nation, Korea, received a perfect score of 8. Other leaders, with scores of 6 or above, were Canada, Spain,

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<sup>19</sup> Government Accountability Office, "Re-Examining Regulations: Opportunities Exist to Improve Effectiveness and Transparency of Retrospective Reviews," Report No. GAO-07-791 (2007), 20.

<sup>20</sup> OMB, *supra* note 18.

Finland, the United Kingdom, Australia, France, and Japan. The United States received a score of 4, ranking 19th out of 31 governments.<sup>21</sup>

Finally, the Mercatus Regulatory Report Card reveals that although agencies sometimes commit to retrospective analysis, set goals, or make provisions for gathering data when they issue regulations, these are the exceptions rather than the rule. The average scores on our two retrospective analysis criteria (Criteria 11 and 12) are barely above 1. This indicates that, on average, agency regulatory analyses provide some semblance of a framework for evaluating the regulation's effects on the future, but agencies have made no commitment to do so.

In 2008, we found only four proposed economically significant regulations for which the agency established goals or measures for any major outcome the regulation was supposed to produce. In only two cases did the agency enumerate the data it would use to evaluate major outcomes the regulation was supposed to produce. For 16 out of 45 regulations, the agencies indicated that they might conduct some type of analysis in the future to assess some of the regulation's effects. Similarly, in 2009, we found four proposed regulations for which the agency established goals or measures for a major outcome and two regulations for which the agency indicated what data it would use to evaluate major outcomes of the regulation in the future. Agencies indicated they might conduct some kind of retrospective analysis for only 14 out of 42 proposed regulations. Effective retrospective analysis requires more than a directive in an executive order. Several changes would help foster retrospective analysis that could help guide decisions about continuing regulations in the future:

***Evaluate existing regulations under the Government Performance and Results Act (GPRA).***

The GPRA Modernization Act of 2010 requires establishment of goals and measures for many major regulations. It requires OMB to establish performance goals for the federal government; identify the agencies, program activities, tax expenditures and *regulations* that contribute to each goal; and establish performance indicators with quarterly targets to assess “the individual contribution of each agency, organization, program, *regulation*, tax expenditure, policy, and other activity identified.”<sup>22</sup> Individual agencies must also identify the regulations that contribute to their high-priority performance goals.<sup>23</sup> At least quarterly, they must “assess whether relevant organizations, program activities, *regulations*, policies, and other activities are contributing as planned to the agency priority goals.”<sup>24</sup>

Many major regulations will no doubt contribute to government-wide goals in the federal government's performance plan or agencies' high-priority goals. The GPRA Modernization Act thus provides a firm legislative basis for requiring all agencies to conduct retrospective analysis

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<sup>21</sup> OECD, *Indicators of Regulatory Management Systems* (2009), <http://www.oecd.org/dataoecd/44/37/44294427.pdf>.

<sup>22</sup> H.R. 2142, GPRA Modernization Act of 2010, Section 1115(a). Emphasis added.

<sup>23</sup> *Id.*, Section 1115(b)(5). Emphasis added.

<sup>24</sup> *Id.*, Section 1121(b)(3). Emphasis added.

of existing regulations. Whether these requirements will receive much emphasis as agencies comply with the GPRA Modernization Act is an open question. It is up to OMB and congressional oversight committees to ensure that agencies comply with this law.

Beyond the reporting requirement is the issue of what decision makers are to do if regulations fail to accomplish their intended outcomes, fail to accomplish the hoped-for amount of the outcome, or fail to do so cost-effectively, or generate significant costs that were unforeseen when the regulation was adopted. “Insufficient resources” is just one possible explanation a regulation (or program or policy) may fail to meet its goals at an acceptable cost. Policy makers should not assume that these failures can be solved with larger appropriations or more regulation. At a minimum, these problems indicate that a regulation deserves fundamental re-examination. At a maximum, they may indicate that the regulatory approach is unworkable and needs to be changed. OMB and/or Congress can encourage scrutiny of existing regulations by attaching real budget consequences to agencies’ failure to meet their goals over a sustained period of time.

***Require explicit links to GPRA for new regulations.*** When an agency proposes a new regulation, the preamble in the Federal Register notice should indicate which government-wide and agency strategic goals the regulation is supposed to advance. The agency should identify performance indicators and the data it will use to evaluate the regulation’s performance in the future. By doing so, agencies will ensure that new regulations that must be evaluated under the GPRA Modernization Act are identified, and they will lay the groundwork for retrospective analysis to determine whether the regulations actually produce the intended outcomes at the expected cost.

Enterprising agency leaders could undertake this change on their own initiative. OMB could require it as part of its efforts to administer the new law. Or, Congress could insist that agencies supply this information when regulations are submitted to Congress under the Congressional Review Act.

***Establish an independent body tasked with retrospective analysis of regulations.*** Even with the GPRA Modernization Act, the primary impetus for retrospective analysis may have to come from an entity outside of the regulatory agencies themselves. One option would be for Congress to reauthorize and fund a Congressional Office of Regulatory Analysis within the Government Accountability Office, and explicitly task this office with conducting rigorous, independent retrospective analyses of the benefits and costs of regulations. Another option would be establishment of an independent Regulatory Review Commission, composed of experts who know how to conduct regulatory analysis and a staff that would conduct periodic reassessments of the benefits and costs of significant regulations after they have been implemented.<sup>25</sup> At a minimum, such a commission could conduct impartial analyses to inform both Congress and the executive branch. Alternatively, the commission could act much like the Base Realignment and

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<sup>25</sup> Pennsylvania’s Independent Regulatory Review Commission is one example. See <http://www.irrc.state.pa.us/>.

Closure Commission.<sup>26</sup> The commission would have authority to recommend packages of regulations for repeal, with an up-or-down vote in Congress.

### **3. Human Dignity and Freedom of Choice**

The new executive order hints at a cluster of related values that have heretofore received little consideration in regulatory analysis. Section 1c adds “human dignity” to the list of non-quantified values agencies may consider. Section 4 directs agencies, where permitted by law, to consider regulatory approaches that “maintain flexibility and freedom of choice for the public.”

These additions suggest a welcome focus on the effects of regulation on the dignity and liberty of the individual. I do not know if these changes are a reaction to “Don’t touch my junk,” or a reflection of OIRA Administrator Cass Sunstein’s scholarly writings on nudges and “libertarian paternalism,” or some other factor. But they open the door to a topic that has not received much explicit attention in previous executive orders or in agency regulatory analyses: respect for the liberty of the individual human person.

When regulation affects personal liberty, it can create benefits or costs. These are not usually well-understood, measured, or incorporated into regulatory analysis, but they are no less real.

This may sound a little abstract; it’s easier to show what I mean with an example.

Airline security has clearly grown more strict since 9/11. This imposes a number of well-documented economic costs on travelers, such as increased waiting times and new fees on airline tickets to pay for the Transportation Security Administration. Airport security also imposes some other, less easily measured costs on passengers, as last fall’s uproar about full-body scans and enhanced pat-downs demonstrates. Economists have even measured the extent to which the post-9/11 airline security measures have reduced air travel by prompting some travelers to substitute driving for flying on shorter trips, and they have measured the associated safety impact of putting more people on the highways.<sup>27</sup> A government owned-corporation, Amtrak, has noticed the possibility of substitution, seeking a slice of airlines’ business by advertising that their passengers only have to take their shoes off when they want to. In short, a large number of costs associated with enhanced airport security can be measured using well-known economic techniques.

But for those of us who continue to fly, the enhanced security measures are hardly costless. I’m sure many members of Congress will readily agree that flying is a big hassle—much more of a hassle than pre-9/11. It’s an even bigger hardship for those who don’t like to have their bodies scanned or their “junk” touched. In economic terms, we’re bearing a cost, but it’s not a type of

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<sup>26</sup> Jerry Brito, “Running for Cover: The BRAC Commission as a Model for Federal Spending Reform,” *Georgetown Journal of Law & Public Policy* 9:1 (Winter 2011), 131-56, <http://mercatus.org/publication/running-cover-0>.

<sup>27</sup> Garrick Blalock, Vrinda Kadiyali, and Daniel H. Simon, “The Impact of Post-9/11 Airport Security Measures on the Demand for Air Travel,” *Journal of Law & Economics* 50:4 (Nov. 2007), 731-56.

cost normally reflected in agency regulatory analysis. Conventional methods do a pretty good job of measuring the economic effects on the people who choose not to fly because of increased security hassles. But they do not measure the loss of value experienced by most of the people in this room, who continue to travel by air even though it is a more personally intrusive and less pleasant experience. An accurate assessment of the net effect of incremental changes in airport security requires that we account for these costs and compare them with the reduction in risk that results from additional security measures.

I'm not trying to single out the Department of Homeland Security. After several years of reading regulatory analyses from a wide variety of federal agencies, I have yet to see an analysis from any agency that accounts for costs or benefits uniquely related to personal liberty. Executive Order 12866 and OMB Circular A-4 do not provide guidance for addressing these types of costs or benefits. Indeed, it is not even clear that scholarly research on regulatory analysis has identified good methods for measuring this. I hope the inclusion of values like human dignity and freedom of choice in Executive Order 13563 will encourage greater thought and further research on how to account for them in regulatory analysis and regulatory decision making.

In the meantime, OIRA could administer the current regulatory analysis framework in a way that creates a preferential option for regulatory alternatives that promote respect for personal liberty. The existing executive orders already list a wide variety of alternatives OIRA wants agencies to consider, including information provision, disclosure requirements, warnings, default rules, user fees, marketable permits, and performance objectives.<sup>28</sup> OIRA (or Congress) could create a presumption in favor of personal liberty by requiring agencies to analyze first the options that create the least restriction on personal liberty. This information could help nudge agencies toward selecting options that are most consistent with personal liberty. The information about alternatives could also be useful if Congress reexamines the regulation under the Congressional Review Act. One possible ordering would be as follows:

1. Guidance on how market participants could use agency research and expertise to address the problem without new regulation;
2. Additional agency investment in research and expertise if they do not currently exist;
3. Agency-facilitated negotiations among stakeholders to devise a voluntary solution;
4. Mandatory disclosures, warnings, or other information provision;
5. Default rules that individuals can opt out of;
6. Performance standards;
7. Economic incentives (taxes, fees, cap-and-trade); and

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<sup>28</sup> The first four are listed in Section 4 of Executive Order 13563. The last three are listed in Sections 1(b)(3) and 1(b)(8) of Executive Order 12866.

## 8. Command-and-control regulation.<sup>29</sup>

### **Conclusion**

We expect federal regulation to accomplish a lot. But regulation also requires sacrifices. Depending on the regulation, consumers may pay more, workers may receive less, our retirement savings may grow more slowly due to reduced corporate profits, and we may have less personal freedom. And yes, some workers may see their jobs migrate to other sectors of the economy or even overseas. Regulatory analysis is the key ingredient that makes these tradeoffs more transparent to decision makers. So, understanding the effects of regulation has to start with sound regulatory analysis.

President Obama's recent executive order on regulation contains several positive features. It reaffirms longstanding standards and regulatory review processes, requires agencies to develop plans for retrospective analysis of existing regulations, and points the way toward greater consideration of regulation's effects on personal liberty. Achieving these goals, however, will require much more than an executive order. In this testimony, I have outlined a number of further steps that the administration and Congress can take to improve the quality and effectiveness of regulatory analysis.

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<sup>29</sup> Bruce Yandle, "Rethinking Protection of Competition and Competitors," in Richard Williams (ed.), *21<sup>st</sup> Century Regulation: Discovering Better Solutions to Enduring Problems* (Arlington, VA: Mercatus Center at George Mason University, 2009), 55-67, [http://mercatus.org/sites/default/files/publication/21st\\_Century\\_Regulation.pdf](http://mercatus.org/sites/default/files/publication/21st_Century_Regulation.pdf).



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# WORKING PAPER

**ASSESSING THE QUALITY OF REGULATORY ANALYSIS:  
A New Evaluation and Data Set for Policy Research**

By Jerry Ellig and John Morrall

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# **Assessing the Quality of Regulatory Analysis: A New Evaluation and Data Set for Policy Research**

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## **Assessing the Quality of Regulatory Analysis: A New Evaluation and Data Set for Policy Research**

### **Abstract**

Congress and the executive branch have attempted to improve the quality of regulatory decisions by adopting laws and executive orders that require agencies to analyze benefits and costs of their decision options. This paper assesses the quality and use of regulatory analysis accompanying every economically significant regulation proposed by executive-branch regulatory agencies in 2008 and 2009. It considers all analysis relevant to the topics covered by Executive Order 12866 that appears in the Regulatory Impact Analysis document or elsewhere in the *Federal Register* notice that proposes the rule.

Our research team used a six-point qualitative scale to evaluate each regulation on 12 criteria grouped into three categories: (1) Openness: How easily can a reasonably intelligent, interested citizen find the analysis, understand it, and verify the underlying assumptions and data? (2) Analysis: How well does the analysis define and measure the outcomes the regulation seeks to accomplish, define the systemic problem the regulation seeks to solve, identify and assess alternatives, and evaluate costs and benefits?; and (3) Use: How much did the analysis affect decisions in the proposed rule, and what provisions did the agency make for tracking the rule's effectiveness in the future?

We find that the quality of regulatory analysis is generally low, varies widely, and did not change much with the change of administrations between 2008 and 2009. The principal improvements across all regulations occurred on the Openness criteria. Budget or "transfer" regulations, which define how the federal government will spend money or collect revenues, have much lower-quality analysis than other regulations. Use of analysis is correlated with its quality, and use of analysis fell in 2009 after controlling for the quality of the analysis. Regulations implementing Recovery Act spending programs have better provisions for retrospective analysis than other transfer regulations.

Keywords: regulatory impact analysis, benefit-cost analysis, regulatory review, regulation

JEL categories: D61, D73, D78, H11, H83, K23, L51, P16

## Introduction

For nearly four decades, presidential administrations have required executive-branch agencies to conduct some type of economic impact analysis when they issue major regulations. Since 1993, President Clinton's Executive Order 12866 has laid out the fundamental analytical steps agencies must take. The very first section of the executive order states that agencies must identify the problem they are trying to address and assess its significance, examine a wide range of alternatives to solve the problem, assess the costs and benefits of the alternatives, and choose to regulate only when the benefits justify the costs. Analytical requirements are especially rigorous for "economically significant" regulations, defined as regulations that "have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or state, local or tribal government or communities" (EO 12866, Sec. 2(f)(1)). Office of Management and Budget (OMB) Circular A-4, issued in September 2003, offered more detailed guidance on "best practices" in regulatory analysis (OMB 2003).

Despite executive orders and detailed guidance, the quality of agencies' regulatory analysis has been inconsistent at best:

- Several studies compared agencies' ex-ante predictions of regulatory benefits and costs with ex-post estimate of actual benefits and costs (Harrington et. al. 2000, OMB 2005, Harrington 2006). These studies found that, in the past, ex-ante estimates tended to overestimate both benefits and costs.
- In a series of papers, Robert Hahn developed and applied a yes/no checklist to evaluate whether agencies' Regulatory Impact Analyses have included a series of major elements that OMB expects them to include. The evaluations focused on final regulations issued by health, safety, and environmental agencies (Hahn and Dudley 2007, Hahn et. al. 1990, Hahn and Litan 2005, Hahn, Lutter, and Viscusi 2000). Surveying the evidence, Hahn and Tetlock (2008, 82–83) conclude that economic analysis has not had much impact, and the general quality of regulatory analysis is low. "Nonetheless," they note, "in a world where regulatory impacts are frequently measured in the billions of dollars, margins matter. Thus, economists should pay more attention to how economic analysis can contribute to improving benefits and costs on the margin."
- Belcore and Ellig (2008) employed a qualitative scoring approach to assess the quality of regulatory analysis at the Department of Homeland Security during its first five years; they conclude these analyses have been seriously incomplete but improved over time.

Most recently, Ellig and McLaughlin (2010) developed a 12-point qualitative framework to assess both the quality and use of regulatory analysis in federal agencies. They evaluated the quality and use of regulatory analyses of "economically significant" rules that were reviewed by OMB's Office of Information and Regulatory Affairs (OIRA) in 2008 and proposed in the

*Federal Register*.<sup>1</sup> The evaluation criteria are drawn from Executive Order 12866, OMB Circular A-4, and pre-existing scholarship on regulatory scorecards.<sup>2</sup> Ellig and McLaughlin found that the average quality of the 2008 regulatory analyses is low, both the quality and use of regulatory analysis vary widely, and there are significant opportunities for improvement through the diffusion of best practices. They also found that better analyses are more likely to be used in agency decisions, but only one-fifth of the regulatory analyses in 2008 appeared to have any effect on regulatory decisions (based on information agencies supplied in the preamble).

This study utilizes the Ellig and McLaughlin method to evaluate the quality and use of regulatory analysis for economically significant regulations proposed by executive-branch agencies in 2009. This is of interest for several reasons. First, a comparison of 2008 and 2009 would help identify whether the change of presidential administrations had any effect on the quality or use of regulatory analysis. Second, the Obama administration proposed in February 2009 to revise Executive Order 12866 (OMB 2009a); evaluating the quality and use of regulatory analysis in the Obama administration prior to the revision establishes a baseline to gauge the effects of any changes. Third, extending the evaluation to 2009 and subsequent years builds a larger data set, which may allow us to draw more reliable general inferences about the relative quality of analysis at different agencies or for different types of regulations.

Our principal findings include:

**Quality is mostly unchanged in 2009.** The average score for regulations proposed in 2008 and 2009 was virtually the same—27 points out of a possible 60. The most significant improvements occurred on Openness criteria, such as online accessibility of regulatory analyses and clarity. On average, explanations of how regulatory costs affect prices of goods and services also improved. Very modest improvements occurred in evidence of regulatory benefits and analysis of the distribution of benefits.

**Analysis is less-widely used in 2009.** Higher-quality analysis is more likely to be used in regulatory decisions. But for any given level of quality, regulatory agencies were less likely to use the analysis in 2009 than in 2008. This change is disturbing, because one of the most important reasons for doing regulatory analysis is so that decision makers can somehow use it to make better decisions. Of course, good regulatory analysis is also important for reviewers (like OMB) and stakeholders.

**Quality is generally low.** In both years, the average score is less than half of the possible 60 points. The highest-scoring regulation in 2008 earned 43 out of 60 possible points, equivalent to a grade of C. The highest-scoring regulation in 2009 earned 48 out of 60 possible points, equivalent to a B-.

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<sup>1</sup> Economically significant regulations require an extensive Regulatory Impact Analysis (RIA) that assesses the need, effectiveness, benefits, costs, and alternatives for the proposed regulation. (EO 12866 Sec. 6(a)(3)(C))

<sup>2</sup> The qualitative evaluation method is based on the Mercatus Center's *Performance Report Scorecard*, a 10-year project that assessed the quality of federal agencies' annual performance reports required under the Government Performance and Results Act of 1996. For the most recent results, see McTigue et. al. (2009).

**Diffusion of best practices could generate substantial improvement.** In 2009, scores ranged from a high of 48 points to a low of just 3 points. In 2008, scores ranged from a high of 43 points to a low of 7 points. For each of our 12 criteria, at least one regulation earned the highest possible score of 5. But for 11 of our 12 criteria, less than a handful of regulations receive a 5. The fact that the highest-scoring regulation in 2009 resulted from collaboration between two agencies also suggests wider sharing of best practices can improve regulatory analysis.

**Transfer regulations have worse analysis.** Budget or “transfer” regulations, which determine how the federal government will spend or collect money, receive much lower scores. On average, transfer regulations received only 17 points in 2008 and 20 points in 2009, compared to an average of 32–34 points for non-transfer regulations.

**Greatest strength: Accessibility on the Internet.** Scores on this criterion averaged 4.06 out of 5 possible points in 2009 and 3.53 out of 5 possible points in 2008. These far exceeded average scores on any other evaluation criterion.

**Greatest weaknesses: Retrospective analysis and identification of systemic problem.** Few regulations or analyses set goals, establish measures, or provide for data gathering to assess the effects of the regulation after it is implemented. Few analyses provide a coherent theory and empirical evidence of a market failure, government failure, or other systemic problem the regulation is supposed to solve.

## 1. Evaluation Protocol

We evaluated the quality and use of regulatory analysis using 12 criteria grouped into three categories—Openness, Analysis, and Use:

1. Openness: How easily can a reasonably intelligent, interested citizen find the analysis, understand it, and verify the underlying assumptions and data?
2. Analysis: How well does the analysis define and measure the outcomes or benefits the regulation seeks to accomplish, define the systemic problem the regulation seeks to solve, identify and assess alternatives, and evaluate costs and benefits?
3. Use: How much did the analysis affect decisions in the proposed rule, and what provisions did the agency make for tracking the rule’s effectiveness in the future?

Figure 1 lists the 12 criteria. Appendix 1 provides additional detail on the kinds of questions considered under each criterion. For a more extensive explanation and justification of this evaluation method, see Ellig and McLaughlin (2010). Individual “Report Cards” showing all scores and scoring notes for each regulation are available at [www.mercatus.org/reportcard](http://www.mercatus.org/reportcard).

Ten of the 12 evaluation criteria closely parallel the Regulatory Impact Analysis checklist released by the Obama administration on November 3, 2010 (OMB 2010). This is not surprising, since both the administration’s checklist and the Mercatus evaluation criteria are based on Executive Order 12866 and OMB Circular A-4. Appendix 2 presents a crosswalk chart comparing the OMB checklist with the 12 criteria used in this paper.

The principal Mercatus evaluation criteria not mentioned in the Obama administration’s checklist are two criteria that assess whether the agency provided for retrospective analysis of the regulations’ actual effects after it is adopted: criterion 11 (Measures and Goals) and criterion 12 (Retrospective Data). Although *ex post*, retrospective analysis has not received as much attention as *ex ante* analysis of proposed regulations; section 5 of Executive Order 12866 states that agencies should conduct retrospective analysis. OMB (2005) has recommended it repeatedly; most recently, OMB (2009b, 45) stated, “[W]e recommend that serious consideration be given to finding ways to employ retrospective analysis more regularly, in order to ensure that rules are appropriate, and to expand, reduce, or repeal them in accordance with what has been learned.” The Government Performance and Results Act arguably requires retrospective analysis of regulations (Brito and Ellig 2009). It is a major area of regulatory analysis where the United States lags other industrialized nations (OECD 2009, 92).

### Figure 1: Regulatory Analysis Assessment Criteria

#### Openness

1. **Accessibility:** How easily were the Regulatory Impact Analysis, the proposed rule, and any supplementary materials found online?
2. **Data Documentation:** How verifiable are the data used in the analysis?
3. **Model Documentation:** How verifiable are the models and assumptions used in the analysis?
4. **Clarity:** Was the analysis comprehensible to an informed layperson?

#### Analysis

5. **Outcomes:** How well does the analysis identify the desired benefits or other outcomes and demonstrate that the regulation will achieve them?
6. **Systemic Problem:** How well does the analysis identify and demonstrate the existence of a market failure or other systemic problem the regulation is supposed to solve?
7. **Alternatives:** How well does the analysis assess the effectiveness of alternative approaches?
8. **Benefit-Cost Analysis:** How well does the analysis assess costs and compare them with benefits?

#### Use

9. **Some Use of Analysis:** Does the preamble to the proposed rule or the Regulatory Impact Analysis present evidence that the agency used the analysis?
10. **Cognizance of Net Benefits:** Did the agency maximize net benefits or explain why it chose another option?
11. **Measures and Goals:** Does the proposed rule establish measures and goals that can be used to track the regulation's results in the future?
12. **Retrospective Data:** Did the agency indicate what data it will use to assess the regulation's performance in the future and establish provisions for doing so?

### Scoring Standards

For each criterion, the evaluators assigned a score ranging from 0 (no useful content) to 5 (comprehensive analysis with potential best practices). Thus, each analysis has the opportunity to earn between 0 and 60 points. In general, the research team used the guidelines in table 1 for scoring. Because the Analysis criteria involve so many discrete aspects of regulatory analysis, we developed a series of sub-questions for each of the four Analysis criteria and awarded a 0–5 score for each sub-question. These scores were then averaged to calculate the score for the individual criterion.

**Table 1: What Do the Scores Mean?**

<b>5</b>	<b>Complete analysis of all or almost all aspects, with one or more “best practices”</b>
<b>4</b>	<b>Reasonably thorough analysis of most aspects and/or shows at least one "best practice"</b>
<b>3</b>	<b>Reasonably thorough analysis of some aspects</b>
<b>2</b>	<b>Some relevant discussion with some documentation of analysis</b>
<b>1</b>	<b>Perfunctory statement with little explanation or documentation</b>
<b>0</b>	<b>Little or no relevant content</b>

### **Caveats and Qualifications**

At the outset of this project, we had to address a seemingly simple question: What counts as a “regulatory analysis”? Most previous research focuses on the document required by OMB that is explicitly named the “Regulatory Impact Analysis” (Hahn and Dudley 2007, Hahn et. al. 1990, Hahn and Litan 2005, Hahn, Lutter, and Viscusi 2000). We adopted a broader definition that includes the entire preamble to the proposed rule, the freestanding document or section of the preamble labeled Regulatory Impact Analysis, and additional “technical support documents” that sometimes accompany a Regulatory Impact Analysis. Since different agencies organize their material in different ways, this approach helped ensure that we were fair to all agencies and included all material relevant to the topics a good regulatory analysis is supposed to address. We also needed to read the entire preamble to assess whether the agency used the results of the regulatory analysis or made provisions to conduct retrospective analysis in the future.

Given resource constraints, any evaluation project like this faces a fundamental choice between breadth and depth of the assessment. We assess whether the Regulatory Impact Analysis and preamble to the proposed rule make a reasonable effort at covering the major elements of regulatory analysis. Commenters on earlier versions of this paper who have detailed knowledge of particular regulations have usually told us that our evaluations seem too lenient. Others with more specialized knowledge will likely have additional important critiques of individual regulations, especially related to the quality, completeness or use of the underlying science. We have opted for less depth in favor of greater breadth. To the best of our knowledge, this is the

most-detailed assessment of the quality of regulatory analysis for all economically significant regulations proposed in a two-year period.

Finally, we caution the reader about drawing direct policy conclusions about particular regulations based on our analysis. Criteria 1–8 only evaluate the quality of regulatory analysis. We do not evaluate whether the proposed rule is economically efficient, fair, or otherwise good public policy.

The same caveat applies to the Use criteria. Criteria 9 and 10 assess the extent to which analysis of the regulation’s outcomes or benefits, the systemic problem, the alternatives, and costs informed the agency’s decisions about the regulation. On these criteria, we took great pains to avoid imposing the value judgment economists often make: that the agency should choose the most economically efficient alternative, as determined by a comparison of quantified benefits and costs. If an agency used some analysis of a regulation’s benefits to make decisions, even if it did not consider costs or efficiency, it could receive some points on criterion 9. Similarly, if an agency demonstrated that it was fully cognizant of the net benefits of alternatives, but explicitly rejected the alternative with the greatest net benefits in favor of some other alternative for clearly articulated reasons, it could receive points on criterion 10. As a result, an agency can earn points on these two criteria even in cases where it is prohibited by law from considering costs, such as the EPA’s national ambient air quality standards. We believe this approach is consistent with the spirit of Executive Order 12866 (sec. 1), which identifies multiple factors in addition to efficiency that are supposed to guide agency decisions: “[I]n choosing among regulatory approaches, agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires another regulatory approach.”

Criteria 11 and 12 assess the extent to which the agency demonstrated its willingness to evaluate the regulation’s actual effects in the future. Ideally, agencies would articulate goals, measures, and data that they could use to assess both realized benefits and costs, thus assessing the regulation’s economic efficiency. In practice, so few regulations include any provisions for retrospective analysis that the handful of high scores occur in cases where agencies have at least identified goals, measures, and data that could be used to assess the regulation’s effectiveness.

Improving the transparency of regulatory documents and the quality of regulatory analysis are necessary but not sufficient to improve public policy. Nevertheless, stakeholders or the agencies themselves may find these analyses useful as a starting point for identifying weaknesses in agency analyses. For example, if an agency has identified only one or two closely related regulatory alternatives, stakeholders may be able to identify additional alternatives that may accomplish the goal at a lower cost.

## 2. Results for 2009

### 2.1 Best and Worst Analyses

Table 2 lists all 42 economically significant proposed regulations for 2009. The best analysis was for the combined Environmental Protection Agency–Department of Transportation regulation on greenhouse gases from light-duty vehicles and Corporate Average Fuel Economy (CAFE) standards. This regulation received the highest total score (48 points) as well as the highest Analysis score (18 points). The two agencies collaborated on developing the regulation and the analysis. The regulatory analysis discusses the “conundrum” associated with the identified market failure. The agencies recognize that their estimates of the private benefits of increased fuel efficiency outweigh private costs, yet consumers do not voluntarily purchase as many fuel-efficient cars as economic rationality would suggest. This sort of disclosure should prove invaluable to stakeholders who wish to comment more extensively on the merits of the rule that requires increases in fuel efficiency. The result suggests that more extensive sharing of best practices could improve the quality of regulatory analysis. This regulation received a score six points higher than the next-best regulation in 2009 and five points higher than DOT’s CAFE regulation in 2008.

Capturing second place in 2009 are three energy-efficiency regulations from the Department of Energy and the Department of Homeland Security’s regulation limiting concentrations of live organisms permitted in discharged ballast water from ships.

The three worst analyses came from the Department of Education (General and Non-Loan Programmatic Issues, 14 points) and the Department of Energy (Weatherization Assistance, 10 points; Loan Guarantees for Projects that Employ Innovative Technologies, 5 points). Like most of the low-ranking regulations, all three of these are budget or “transfer” regulations. Transfer regulations, italicized in table 2, outline how the federal government will spend money, set fees, or administer spending programs. Most of these regulations score poorly, continuing a trend observed in 2008 (Ellig and McLaughlin 2010, 14–15).

The best analysis in 2009 received 48 points, or 80 percent of the maximum possible score. The worst received just five points (8 percent). The range of scores widened compared to 2008. In 2008, scores ranged from seven points to 43 points. If these were student papers, the best one in 2009 would have received a B-, and the best one in 2008 would have received a C.

### 2.2 Summary Statistics

Table 3 summarizes average total scores and scores on the three categories of criteria for 2008 and 2009. The average score in 2009 was 27.02 points out of a possible 60, or 45 percent. The average for 2008 was 27.31, virtually the same. The very low t-statistic indicates that the difference is not statistically significant; for all practical purposes, the averages are the same.<sup>3</sup>

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<sup>3</sup> In plain English, that means the total scores for 2008 and 2009 are like two sets of ping pong balls pulled at random out of the same bucket; any difference in the averages is random chance. There is likely no difference at all between the total scores for the two years.

**Table 2: Scores for 2009 Proposed Regulations**

<b>Proposed Rule</b>	<b>RIN</b>	<b>Department</b>	<b>Total</b>	<b>Openness</b>	<b>Analysis</b>	<b>Use</b>
Greenhouse Gases from Light-Duty Vehicles	2060-AP58	DOT/EPA	48	15	18	15
Energy Conservation: Small Electric Motors	1904-AB70	DOE	42	16	14	12
Energy Efficiency Standards for Commercial Clothes Washers	1904-AB93	DOE	40	14	14	12
Energy Efficiency Standards for Pool Heaters etc.	1904-AA90	DOE	40	14	14	12
Living Organisms in Ships' Ballast Water Discharged in U.S. Waters	1625-AA32	DHS	40	15	15	10
Nutrition Labeling of Single-Ingredient Products	0583-AC60	USDA	38	14	16	8
Title V Greenhouse Gas Tailoring Rule	2060-AP86	EPA	38	15	11	12
Emissions From New Marine Compression-Ignition Engines	2060-AO38	EPA	37	15	16	6
Portland Cement NESHAP	2060-AO15	EPA	35	17	11	7
Greenhouse Gas Mandatory Reporting Rule	2060-AO79	EPA	34	12	10	12
Migratory Bird Hunting	1018-AW31	Interior	34	13	12	9
Emission Standards, Reciprocating Internal Combustion Engines	2060-AP36	EPA	33	14	11	8
<i>End Stage Renal Disease Prospective Payment System</i>	<i>0938-AP57</i>	<i>HHS</i>	<i>32</i>	<i>13</i>	<i>9</i>	<i>10</i>
Lead; Opt-out and Recordkeeping Provisions	2070-AJ55	EPA	32	16	13	3
Primary National Ambient Air Quality Standard for Nitrogen Dioxide	2060-AO19	EPA	32	11	14	7
Motor Vehicle Safety Standards, Ejection Mitigation	2127-AK23	DOT	31	12	11	8
<i>School Improvement Grants</i>	<i>1810-AB06</i>	<i>ED</i>	<i>31</i>	<i>11</i>	<i>7</i>	<i>13</i>
Primary National Ambient Air Quality Standard for Sulfur Dioxide	2060-AO48	EPA	30	12	12	6
Medical Examination of Aliens	0920-AA26	HHS	28	14	12	2
Positive Train Control	2130-AC03	DOT	26	10	7	9
<i>Prospective Payment Skilled Nursing Facilities</i>	<i>0938-AP46</i>	<i>HHS</i>	<i>26</i>	<i>11</i>	<i>8</i>	<i>7</i>
<i>Electronic Health Record Incentive Program</i>	<i>0938-AP78</i>	<i>HHS</i>	<i>25</i>	<i>13</i>	<i>7</i>	<i>5</i>
<i>Home Health Prospective Payment System</i>	<i>0938-AP55</i>	<i>HHS</i>	<i>25</i>	<i>11</i>	<i>8</i>	<i>6</i>
<i>Prospective Payment System for Inpatient Rehabilitation Facilities</i>	<i>0938-AP56</i>	<i>HHS</i>	<i>25</i>	<i>15</i>	<i>5</i>	<i>5</i>
<i>Hospital Inpatient and Long-Term Care Prospective Payment System</i>	<i>0938-AP39</i>	<i>HHS</i>	<i>24</i>	<i>14</i>	<i>5</i>	<i>5</i>
Hazard Communications Standard	1218-AC20	DOL	24	13	7	4
<i>Outpatient Prospective Payment</i>	<i>0938-AP41</i>	<i>HHS</i>	<i>24</i>	<i>13</i>	<i>6</i>	<i>5</i>
<i>Race to the Top Fund</i>	<i>1810-AB07</i>	<i>ED</i>	<i>23</i>	<i>9</i>	<i>5</i>	<i>9</i>
<i>Revisions to Payment Policies Under the Physician Fee Schedule</i>	<i>0938-AP40</i>	<i>HHS</i>	<i>23</i>	<i>11</i>	<i>6</i>	<i>6</i>
<i>State Fiscal Stabilization Fund Program</i>	<i>1810-AB04</i>	<i>ED</i>	<i>23</i>	<i>13</i>	<i>5</i>	<i>5</i>
Renewable Fuels Program	2060-AO81	EPA	21	11	6	4
<i>Special Community Disaster Loans Program</i>	<i>1660-AA44</i>	<i>DHS</i>	<i>20</i>	<i>11</i>	<i>6</i>	<i>3</i>
<i>Investing in Innovation</i>	<i>1855-AA06</i>	<i>ED</i>	<i>19</i>	<i>11</i>	<i>4</i>	<i>4</i>
<i>Hospice Wage Index for FY 2010</i>	<i>0938-AP45</i>	<i>HHS</i>	<i>18</i>	<i>9</i>	<i>4</i>	<i>5</i>
<i>Housing Trust Fund Program</i>	<i>2506-AC23</i>	<i>HUD</i>	<i>18</i>	<i>10</i>	<i>3</i>	<i>5</i>
<i>Revisions to the Medicare Advantage Program</i>	<i>0938-AP77</i>	<i>HHS</i>	<i>18</i>	<i>9</i>	<i>4</i>	<i>5</i>
<i>Credit Assistance for Surface Transportation Projects</i>	<i>2105-AD70</i>	<i>DOT</i>	<i>17</i>	<i>11</i>	<i>5</i>	<i>1</i>
<i>Expansion of Enrollment in the VA Health Care System</i>	<i>2900-AN23</i>	<i>VA</i>	<i>17</i>	<i>11</i>	<i>3</i>	<i>3</i>
<i>Children's Health Insurance Program (CHIP)</i>	<i>0938-AP53</i>	<i>HHS</i>	<i>15</i>	<i>8</i>	<i>1</i>	<i>6</i>
<i>General and Non-Loan Programmatic Issues</i>	<i>1840-AC99</i>	<i>ED</i>	<i>14</i>	<i>8</i>	<i>2</i>	<i>4</i>
<i>Weatherization Assistance Program</i>	<i>1904-AB97</i>	<i>DOE</i>	<i>10</i>	<i>6</i>	<i>3</i>	<i>1</i>
<i>Loan Guarantees for Projects that Employ Innovative Technologies</i>	<i>1901-AB27</i>	<i>DOE</i>	<i>5</i>	<i>3</i>	<i>2</i>	<i>0</i>
Averages			27.02	12.00	8.38	6.64

Note: Regulations in red italics are budget or “transfer” regulations.

Some slight shifts in scores may have occurred in two of the categories between 2008 and 2009. The average Analysis score was largely unchanged. The average Openness score increased by about one point—from 11.04 in 2008 to 12 in 2009. The average Use score fell by about a point, from 7.73 in 2008 to 6.64 in 2009. These differences are statistically significant at the 85 percent confidence level. This is suggestive, but not nearly as strong an indicator as the 95 percent confidence level economists normally use as the standard to infer a likely relationship. Based on this comparison of averages for all kinds of regulations, perhaps the transparency of regulatory analysis increased in 2009, and actual use to make decisions may have decreased, but the difference is not clear enough to tell for sure.

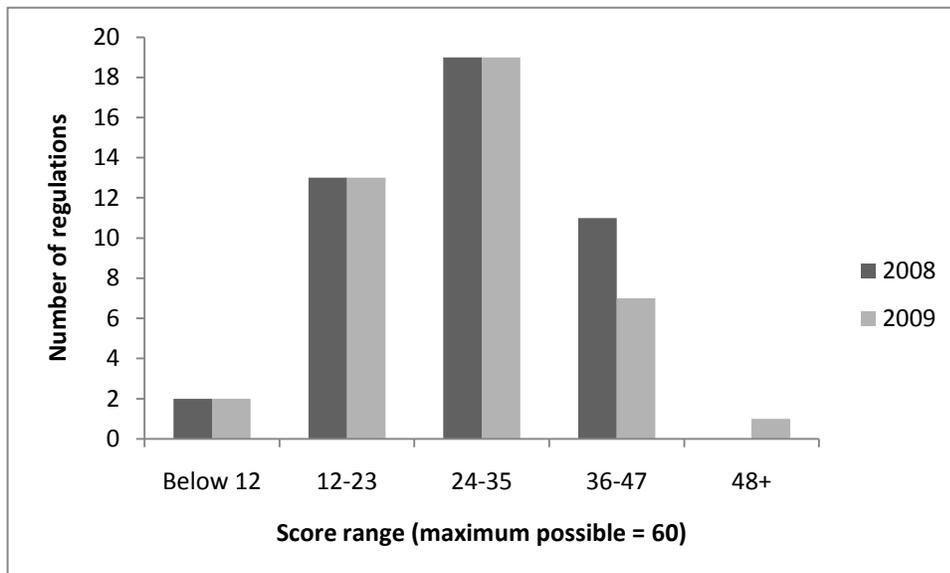
Figure 2 shows that the distribution of scores was roughly the same in both years. The only differences are that the joint DOT/EPA regulation received a score of 48 in 2009, and several more regulations in 2008 received scores in the 36–47 range.

**Table 3: Average Scores, 2008 vs. 2009**

	<b>2008 (n=45)</b>	<b>2009 (n=42)</b>	<b>Change</b>	<b>T-stat.</b>
<b>Total Score</b>	27.31	27.02	-0.29	0.14
<b>Openness</b>	11.04	12.00	0.96	1.46
<b>Analysis</b>	8.53	8.38	-0.15	0.16
<b>Use</b>	7.73	6.64	-1.09	1.48

Maximum possible total score = 60. Maximum possible score on each category = 20.

**Figure 2: Distribution of Scores**



### 2.3 Average Scores by Criterion

Table 4 shows the average score for each criterion in 2008 and 2009. For each criterion, at least one regulation earned the highest possible score of 5 in most cases. Best practices, however, are not widely shared. The “# Earning Highest Score” column demonstrates that, except for Availability, very few regulations earn a score of 5 on any individual criterion. The “Theoretical Highest Score” is the score a hypothetical regulation could have earned if it had incorporated all of the best practices identified that year. For 2009, the highest-scoring regulation is much closer to the theoretical highest score than in 2008.

**Table 4: Scores by Criterion**

<b>Criterion</b>	<b>2008 Average Score</b>	<b>2008 Highest Score</b>	<b>2008 # Earning Highest Score</b>	<b>2009 Average Score</b>	<b>2009 Highest Score</b>	<b>2009 # Earning Highest Score</b>
1. Accessibility	3.53	5	12	4.06	5	14
2. Data Documentation	2.24	5	1	2.50	5	5
3. Model Documentation	2.33	5	3	2.62	5	1
4. Clarity	2.93	5	3	2.83	4	10
5. Outcome Definition	2.36	5	2	2.38	5	1
6. Systemic Problem	1.80	5	1	1.60	4	4
7. Alternatives	2.29	5	1	2.21	5	1
8. Benefit-Cost Analysis	2.09	4	3	2.19	5	1
9. Some Use of Analysis	2.44	5	2	2.24	5	1
10. Considered Net Benefits	2.20	5	2	1.62	5	4
11. Measures and Goals	1.36	5	1	1.29	4	1
12. Retrospective Data	1.73	5	1	1.50	4	2
Total	27.31	43		27.02	48	
Theoretical Highest Score*		59			56	

Very few of the score changes between 2008 and 2009 are statistically significant.<sup>4</sup> Moreover, changes in averages for some criteria appear to be driven by the changing mix of regulations rather than an actual change in the quality of agencies’ analysis. An accurate assessment of changes, therefore, requires separate consideration of transfer and non-transfer regulations.<sup>5</sup>

<sup>4</sup> Summary statistics for all criteria, and the sub-questions for criteria 5–8, are in appendix 3.

<sup>5</sup> Statistically significant changes in averages for the entire set of regulations, without distinguishing between transfer and non-transfer regulations, are in appendix 4.

## 2.4 Transfer vs. Non-Transfer Regulations

Several previous studies using 2008 data, as well as table 2, demonstrate that the quality and use of analysis for transfer regulations is well below the quality and use of analysis for non-transfer regulations (Ellig and McLaughlin 2010, McLaughlin and Ellig 2010). Indeed, OMB (2008, 12–17) observes that although transfer regulations generate social costs via mandates, prohibitions, and price distortions, agencies do not usually estimate the social benefits and costs of transfer regulations.

Table 5 confirms that the quality and use of analysis for transfer regulations is much lower in both 2008 and 2009. In 2008, for example, the average total score for transfer regulations (17 points) is 47 percent below the average score for non-transfer regulations (32 points). Similarly, in 2009 the average total score for transfer regulations (21 points) is 40 percent below the average total score for non-transfer regulations (34 points). These differences occur for Openness, Analysis, and Use. Openness has the smallest gap, but even there, transfer regulations score 20–30 percent below non-transfer regulations.

**Table 5: Transfer vs. Non-Transfer Regulations, Average Scores**

	<b>Transfer 2008</b> (n=15)	<b>Non-Transfer 2008</b> (n=30)	<b>Difference</b>	<b>T-stat.</b>
<b>Total Score</b>	17.07	32.43	15.37	8.03
<b>Openness</b>	8.6	12.27	3.67	4.16
<b>Analysis</b>	3.53	11.03	8.53	8.71
<b>Use</b>	4.93	9.13	4.20	4.99
	<b>Transfer 2009</b> (n=22)	<b>Non-Transfer 2009</b> (n=20)	<b>Difference</b>	<b>T-stat.</b>
<b>Total Score</b>	20.54	34.15	13.65	6.84
<b>Openness</b>	10.5	13.65	3.15	4.32
<b>Analysis</b>	4.91	12.20	7.29	8.9
<b>Use</b>	5.14	8.3	3.16	3.18

All differences are statistically significant at greater than the 99 percent level of confidence. Maximum possible total score = 60. Maximum possible score on each category = 20.

Because transfer regulations generally receive lower scores, a shift in the mix of transfer vs. non-transfer regulations could affect changes in average scores from one year to the next. In 2008, there were 15 proposed economically significant transfer regulations, accounting for 33 percent of proposed economically significant regulations. In 2009, there were 22 proposed economically significant transfer regulations, accounting for 52 percent of proposed economically significant regulations. The increase mostly reflects five regulations proposed in 2009 that implemented provisions of the American Recovery and Reinvestment Act. Thus, one might expect that the average quality and use of regulatory analysis would be lower in 2009 than in 2008 simply because more transfer regulations were proposed in 2009.

**Table 6: Score Changes on Individual Criteria and Questions, Transfer vs. Non-Transfer Regulations**

	2008 (n=30)	2009 (n=20)	Change	T-stat.
<b>Non-Transfer Regulations</b>				
<b>Total Score</b>	32.43	34.15	1.72	0.94
<b>Openness</b>				
Criterion 1 – Availability	3.30	3.95	0.65	1.69*
Criterion 2 – Data Documentation	2.63	3.15	0.52	1.66*
Criterion 3 – Theory and Model Documentation	2.83	3.30	0.47	1.49
<b>Analysis</b>				
Criterion 5 – Outcomes	11.03	12.20	1.17	0.20
Criterion 5 – Outcomes	3.10	3.55	0.45	1.63
Question 5D – Evidence Regulation Will Affect Outcome	2.40	3.15	0.75	1.88*
Criterion 8 – Cost-Benefit Analysis	2.60	3.10	0.5	2.15**
Question 8C – Effects on Prices of Goods and Services	1.70	3.30	1.60	3.91***
Question 8G – Calculates Cost-Effectiveness	1.43	2.35	0.92	2.35**
Question 8I – Incidence of Benefits	2.07	2.95	0.88	2.33**
<b>Use</b>				
Use	9.13	8.3	-0.83	0.35
<b>Transfer Regulations</b>				
<b>Total Score</b>	17.07	20.55	3.48	1.70*
<b>Openness</b>				
Criterion 3 – Theory and Model Documentation	8.60	10.50	1.90	2.11**
Criterion 3 – Theory and Model Documentation	1.33	2.00	.67	1.88*
Criterion 4 – Clarity	1.80	2.45	.65	2.37**
<b>Analysis</b>				
Criterion 5 – Outcomes	0.87	1.31	0.45	1.61
Question 5A – Articulate Desired Outcome	1.80	2.45	0.65	1.52
Question 5D – Evidence Regulation Will Affect Outcome	0.20	1.00	0.80	2.86***
Criterion 6 – Systemic Problem	0.60	1.00	0.40	1.79*
Question 6B – Coherent Theory of Systemic Problem	0.47	0.86	0.40	1.64
Question 7A – List Alternatives	1.07	1.91	0.84	2.18**
Criterion 8 – Cost-Benefit Analysis	1.07	1.36	0.30	1.51
<b>Use</b>				
Use	4.93	5.14	0.20	0.83

Statistical significance: \*90 percent \*\* 95 percent

Maximum possible score on individual criteria or questions = 5.

Table 6 shows changes in mean scores calculated separately for transfer and non-transfer regulations. We report statistics for individual criteria or questions only when the differences approach statistical significance.

For non-transfer regulations, there are very few improvements. Average Openness scores improved from 12.27 points to 13.65 points. The difference is almost statistically significant at the 95 percent level. Within the Analysis category, there is weak evidence of improvement on criterion 5 (Outcomes), largely because agencies provided more evidence that the regulation will accomplish the intended outcomes. Criterion 8 (Cost-Benefit Analysis) also saw improvement due to better scores on three questions: question 8C (Effects on Prices of Goods and Services), question 8G (Evaluation of Cost-Effectiveness) and question 8I (Incidence of Benefits). These changes are consistent with the administration's goals of improving the transparency of the regulatory process, identifying benefits of regulation, and expanding the focus on distributional issues. We caution, however, that the changes are quite small, and the improvements under the Analysis category mostly just move the average scores closer to 3.

Transfer regulations show slightly more improvement than non-transfer regulations. The average Openness score improved, largely due to increases in scores on criterion 3 (Theory and Model Documentation) and criterion 4 (Clarity). The improvement on criterion 4 is actually significant at the 98 percent level. All four Analysis criteria saw higher average scores in 2009 than in 2008. However, all of these scores remained well below 2 in 2009. This indicates only that more analyses presented a small amount of discussion or evidence relevant to these criteria instead of saying nothing. While these improvements are certainly welcome, the low levels of the scores indicate that analysis of transfer regulations has a long way to go before it is as good as the analysis of non-transfer regulations.

We draw the following conclusions from this breakdown between transfer and non-transfer regulations:

- The only category of criteria that appears to have improved for both transfer and non-transfer regulations is Openness.
- The few improvements in the Analysis criteria for non-transfer regulations seem consistent with the Obama administration's regulatory priorities.
- Improvements in some of the Analysis criteria for transfer regulations largely reflect the presence of some content or assertions where previously there were none.
- Regulators made little commitment to retrospective analysis of regulations proposed in either year.

## **2.5 Total Scores by Agency**

Another way to control for factors that might affect the average quality or use of regulatory analysis is to break scores down by agency. Some agencies may do a better job of

analysis than others. Some may tackle analytical problems that are inherently more difficult. Yet others may have different mixes of transfer regulations and non-transfer regulations. Table 7 presents average scores by agency for 2008 and 2009, with and without transfer regulations.

When all regulations are included, five agencies increased their average total scores in 2009, and five agencies reduced their average total scores. When transfer regulations are excluded, four agencies increased their average total scores in 2009, and four agencies reduced their average total scores. Given that most agencies proposed small numbers of economically significant regulations, few agencies proposed comparable numbers of economically significant regulations in both years, and six agencies proposed economically significant regulations only in 2008, it is difficult to infer any general pattern of improvement or deterioration from these results.

However, it is clear that the presence or absence of transfer regulations in a given year has a big effect on some agencies' scores. Scores for the Departments of Energy, Homeland Security, Transportation, and Health and Human Services climb noticeably in one or both years when transfer regulations are excluded. Omitting transfer regulations, Energy and Homeland Security leapfrog Agriculture, EPA, and Interior in the 2009 rankings, and HHS edges past Labor.

**Table 7: Average Total Scores by Agency**

<b>All Regulations</b>	<b>2009 Average Score</b>	<b># of Regulations</b>	<b>2008 Average Score</b>	<b># of Regulations</b>	<b>2008-09 Change</b>
Joint DOT/EPA	48.0	1	NA	0	NA
USDA	38.0	1	28.0	1	+10.0
Interior	34.0	1	27.3	4	+6.7
EPA	32.5	9	39.5	2	-7.0
DHS	30.0	2	38.0	2	-8.0
Energy	27.4	5	27.0	1	+0.4
DOT	24.7	3	32.3	6	-7.6
Labor	24.0	1	34.1	6	-10.1
HHS	23.6	12	20.7	11	+2.9
Education	22.0	5	22.0	2	0
HUD	18.0	1	41.0	1	-23.0
Veterans	17.0	1	10.0	1	+7.0
Justice		0	35.0	3	NA
Treasury		0	27.0	1	NA
Fed Acquisition		0	24.0	1	NA
State		0	13.0	1	NA
Defense		0	12.0	1	NA
SSA		0	7.0	1	NA
<b>Non-Transfer Regulations</b>	<b>2009 Score</b>	<b># of Regulations</b>	<b>2008 Score</b>	<b># of Regulations</b>	<b>2008-09 Change</b>
Joint DOT/EPA	48.0	1	NA	0	NA
Energy	40.7	3	27.0	1	+13.7
DHS	40.0	1	38.0	1	+2.0
USDA	38.0	1	28.0	1	+10.0
EPA	32.5	9	39.5	2	-7.0
Interior	34.0	1	27.3	4	+6.7
DOT	29.0	2	32.3	6	-3.3
HHS	28.0	1	29.0	2	-1.0
Labor	24.0	1	34.1	6	-10.1
HUD		0	41.0	1	NA
Justice		0	35.0	3	NA
Treasury		0	27.0	1	NA
Federal Acquisition		0	24.0	1	NA

Maximum possible average total score = 60.

## 5. Use of Analysis

Previous research found that use of the analysis was positively correlated with the quality of the analysis in 2008. Scores on criteria 9–12, which evaluate use of analysis, are positively correlated with the Analysis score and overall quality, defined as the sum of the Openness and Analysis scores, criteria 1–8 (Ellig and McLaughlin 2010). An additional year gives us a larger data set to test whether this relationship still held and whether it changed in 2009.

### 5.1 Total Use Score

Table 8 shows the results from regressing the Use score on the Quality score, along with several control variables. A one point increase in the Quality score is associated with a 0.25–0.31 point increase in the Use score, and this correlation is highly statistically significant. The result also seems quantitatively significant. The standard deviation of Quality is 6.86; a one-standard-deviation change in Quality implies about a two-point change in Use. Given that the mean Use score is 7.21, variation in Quality seems to explain a great deal of the variation in Use.<sup>6</sup>

The Year 2008 dummy tests whether Use scores tend to be different in 2008 and 2009. It shows that Use is about 1.3 points higher in 2008, after controlling for Quality. This result indicates a 1.3-point shift in the intercept of the regression equation. One might also speculate that the slope of the line might be different in the two years. When we run the same regressions using  $\text{Quality} \times \text{Year}$  as an explanatory variable instead of the year dummy, we get roughly the same results with a bit worse statistical fit.<sup>7</sup>

The year appears to make a big difference, considering that the mean Use score is only 7.21 and its standard deviation is 3.45. However, it would be a mistake to portray the first year of the Obama administration as a retreat from stellar use of analysis in the Bush administration. Figure 3 shows the distribution of Use scores in 2008 and 2009. Neither year shows more than middling use of analysis. The principal difference is that the middle class shrinks in 2009, with more regulations that either fail to use the analysis or make only a passing reference to it.

Models 3 and 4 in table 8 include control variables for transfer regulations, to see if tendencies to use analysis differ for this type of regulation. In general, the relationship between Use and Quality seems no different for transfer regulations than for non-transfer regulations. However, the transfer regulations that implement provisions of the American Recovery and Reinvestment Act appear to be marginally more likely to use the analysis. The Use score for these five regulations averages 7 points, compared to an average of 5 points for other transfer regulations in 2009. The difference in averages stems from relatively high Use scores for two Education Department regulations that provide grants to states for education reform: the School Improvement Grants (13 points) and the Race to the Top Fund (9 points). School Improvement Grants earned a relatively high Use score because the regulations focus the grants on education reforms that have research demonstrating their effectiveness, and because the regulation includes

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<sup>6</sup> Using only the four Analysis criteria 5–8 as the independent variable produces roughly the same results with a bit worse statistical fit.

<sup>7</sup> Results are in appendix 5.

provisions to gather data and evaluate the effectiveness of the reforms funded by the spending. The Race to the Top fund did not make much use of analysis to create the regulation, but it did establish goals and require states to submit data to evaluate the effectiveness of the reforms funded by the regulation.

## **5.2 Ex-Ante Use vs. Retrospective Analysis**

The total Use score consists of scores for two types of criteria that might be affected differently by the quality of analysis. Criteria 9 and 10 assess the extent to which the agency used the analysis to make decisions in the proposed regulation. Criteria 11 and 12 assess the extent to which the agency provided for retrospective analysis in either the preamble to the regulation or the Regulatory Impact Analysis. To see whether Quality has different effects on these variables, table 9 replicates the regressions in table 8 using criteria 9–10 as a dependent variable and using criteria 11–12 as a dependent variable.

The quality of analysis clearly has a positive, statistically significant correlation with both the use of analysis to craft the regulation and on provisions for retrospective analysis. The effect is about twice as large for the former as for the latter.

The Year dummy variable, however, shows that Quality has a differential effect in 2008 only for use of analysis to craft the regulation. Agencies were no more likely to make provisions for retrospective analysis in 2008 than in 2009. This is perhaps unsurprising, given that Executive Order 12866 and Circular A-4 place little emphasis on retrospective analysis.

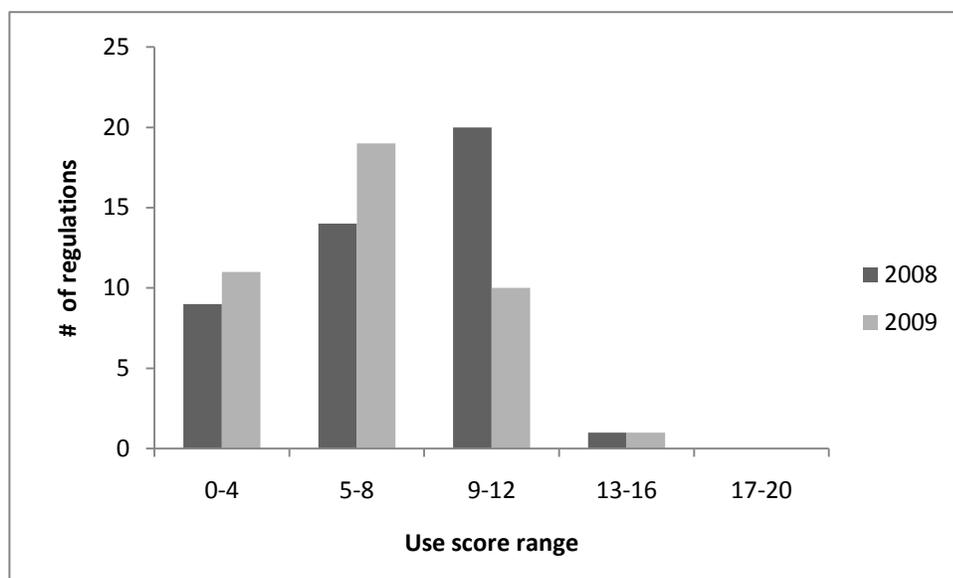
Finally, the Transfer dummy variable indicates that agencies were neither more nor less likely to use analysis in crafting transfer regulations or provide for retrospective analysis. The Recovery Act dummy shows that these regulations tend to have better retrospective analysis provisions—again largely because of the higher scores of the two education reform regulations.

These regressions identify some significant correlations, but we are not sure if they imply causation. Perhaps decision makers choose to use analysis when they are confident it is higher quality. Or perhaps analysts prepare better analysis when they are confident the decision makers will use it. Similarly, the higher Use scores in 2008 might reflect a stronger commitment to using regulatory analysis in the Bush administration, but other hypotheses might also explain the difference. To the extent that regulations proposed in 2009 were already in process in 2008, perhaps the Bush administration simply pushed out the regulations that were better-supported by analysis in 2008 and left the rest for the Obama administration to deal with. Alternatively, the difference could just reflect the fact that 2009 was a transition year (perhaps because new members of an administration have to “learn” how to use economic analysis). Forthcoming data on the quality and use of regulatory analysis in 2010 may allow us to test these and other hypotheses. Systematic interviews of federal regulatory personnel, such as those conducted by Williams (2008), could provide additional (and perhaps even better) insights.

**Table 8: Quality of Analysis vs. Use of Analysis**

Explanatory Variables	Dependent Variable: Use of Analysis Score (Criteria 9–12)			
	(1)	(2)	(3)	(4)
Quality (Criteria 1–8)	0.30 [6.98***]	0.31 [7.28***]	0.27 [3.99***]	0.25 [3.83***]
Year 2008 Dummy		1.34 [2.31***]	1.15 [1.85*]	1.33 [2.14**]
Transfer Regulation			-0.80 [-0.85]	-1.19 [-1.25]
Recovery Act Regulation				2.25 [1.70*]
Constant	1.14 [1.24]	.33 [0.34]	1.64 [0.91]	1.82 [1.02]
N	87	87	87	87
Adjusted R <sup>2</sup>	0.36	0.39	0.39	0.40

Ordinary least squares regressions; t-statistics in parentheses.  
 Statistical significance: \*\*\*1 percent \*\*5 percent \*10 percent

**Figure 3: Use of Analysis Scores by Quintile**

**Table 9: Quality of Analysis vs. Separate Scores for Ex-Ante and Retrospective Analysis**

<b>Explanatory Variables</b>	<b>Dependent Variable: Ex Ante Use of Analysis (Criteria 9–10)</b>			
	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
Quality (Criteria 1–8)	0.20 [6.05***]	0.20 [6.30***]	0.17 [3.46***]	0.17 [3.37***]
Year 2008 Dummy		0.94 [2.18**]	0.83 [1.78*]	0.87 [1.82*]
Transfer Regulation			-0.51 [-0.72]	-0.58 [-0.80]
Recovery Act Regulation				0.45 [0.45]
Constant	0.34 [0.50]	-0.22 [-0.32]	0.60 [0.44]	0.64 [0.47]
N	87	87	87	87
Adjusted R <sup>2</sup>	0.29	0.32	0.32	0.31

<b>Explanatory Variables</b>	<b>Dependent Variable: Provisions for Retrospective Analysis (Criteria 11–12)</b>			
	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
Quality (Criteria 1–8)	0.11 [3.98***]	0.11 [4.04***]	0.09 [2.19**]	0.08 [2.00**]
Year 2008 Dummy		0.39 [1.06]	0.32 [0.81]	0.47 [1.29]
Transfer Regulation			-0.29 [-0.49]	-0.61 [-1.01]
Recovery Act Regulation				1.80 [2.15**]
Constant	0.79 [1.39]	0.56 [0.91]	1.04 [0.90]	1.18 [1.04]
N	87	87	87	87
Adjusted R <sup>2</sup>	0.15	0.15	0.14	0.18

Ordinary least squares regressions; t-statistics in parentheses.  
 Statistical significance: \*\*\*1 percent \*\*5 percent \*10 percent

### 5.3 Use by Individual Agencies

Is the reduction in Use scores widespread, or concentrated in a few agencies? Table 10 sheds light on this question by calculating changes in average Use scores for individual agencies, including and excluding transfer regulations.

Including all regulations, four agencies improved their average Use scores between 2008 and 2009: Interior, Agriculture, Health and Human Services, and Veterans Affairs. Except for Agriculture, all of these improvements were less than one point. Seven agencies saw their average Use scores fall, and all of these reductions exceeded two points. Thus, improvements are small, and reductions are widespread.

Some of these changes were driven by the increased proportion of transfer regulations in 2009. Excluding transfer regulations, four agencies increased their Use scores: Interior, Agriculture, Health and Human Services, and Energy. Interior's score increased by just 0.7 point; all the others increased by at least two points. Four agencies saw their Use scores fall when transfer regulations are excluded: Homeland Security, Transportation, EPA, and Labor. Each of these four reductions was two points or greater. Excluding transfer regulations thus suggests that some agencies had noticeable improvements in their Use scores, while about the same number saw noticeable reductions.

The changing mix of transfer vs. non-transfer agencies had a big effect on results for four agencies: Energy, Homeland Security, Transportation, and Health and Human Services. Excluding transfer regulations actually increases Energy's Use score; with transfer regulations, Energy's Use score falls. Excluding transfer regulations leads to a much bigger increase in Health and Human Services' Use score: a 5.5 point increase instead of a 0.7 point increase. Finally, excluding transfer regulations cuts the reduction in Homeland Security's and Transportation's Use scores by more than half.

The regression equations in tables 8 and 9 show that use of analysis to make decisions about regulations is lower in 2009, even after controlling for transfer regulations. Tabulations in table 10 suggest that the primary reason for the statistically significant decline in Use scores in 2009 appears to be the reductions in Use scores at Transportation and EPA. Of all the agencies whose average Use scores fell, Transportation proposed two regulations in 2009 and EPA proposed nine. No other agency whose Use score for non-transfer regulations fell in 2009 proposed more than one non-transfer regulation in 2009.

In fairness, we should also note that the combined DOT/EPA CAFÉ/greenhouse gas emissions regulation earned the highest Use score in 2009: 15 points. In addition, the caveat we applied to table 7 applies to table 10 as well. Because the number of regulations is so small, it is hard to make reliable generalizations about particular agencies. For that, more years of data are needed.

**Table 10: Use by Individual Agencies**

<b>All Regulations</b>	<b>2009 Average Score</b>	<b># of Regulations</b>	<b>2008 Average Score</b>	<b># of Regulations</b>	<b>2008-09 Change</b>
Joint DOT/EPA	15.0	1	NA	0	NA
Interior	9.0	1	8.3	4	+0.7
USDA	8.0	1	5.0	1	+3.0
Energy	7.4	5	10.0	1	-2.6
EPA	7.2	9	10.5	2	-3.3
Education	7.0	5	9.0	2	-2.0
DHS	6.5	2	12.0	2	-5.5
HHS	5.6	12	5.5	11	+0.1
HUD	5.0	1	10.0	1	-5.0
DOT	4.5	3	10.0	6	-5.5
Labor	4.0	1	8.7	6	-4.7
Veterans	3.0	1	2.0	1	+1.0
Justice		0	11.7	3	NA
Treasury		0	9.0	1	NA
Fed Acquisition		0	4.0	1	NA
SSA		0	3.0	1	NA
State		0	2.0	1	NA
Defense		0	1.0	1	NA
<b>Non-Transfer Regulations</b>	<b>2009 Score</b>	<b># of Regulations</b>	<b>2008 Score</b>	<b># of Regulations</b>	<b>2008-09 Change</b>
Joint DOT/EPA	15.0	1	NA	0	NA
Energy	12.0	3	10.0	1	+2.0
DHS	10.0	1	12.0	1	-2.0
Interior	9.0	1	8.3	4	+0.7
DOT	8.5	2	10.0	6	-2.5
USDA	8.0	1	5.0	1	+3.0
EPA	7.2	9	10.5	2	-3.3
HHS	7.0	1	2.0	2	+5.0
Labor	4.0	1	8.7	6	-4.7
HUD		0	10.0	1	NA
Justice		0	11.7	3	NA
Treasury		0	9.0	1	NA
Federal Acquisition		0	4.0	1	NA

Maximum possible Use score = 20.

## 6. Conclusions

This study expands on existing research by applying a consistent set of standards to assess the quality and use of regulatory analysis for all economically significant regulations proposed in two different years. We find that the average quality of analysis is not high. The quality and use of regulatory analysis is especially poor for transfer regulations that define how the federal government will spend or collect money. But Regulatory Impact Analyses and *Federal Register* preambles present many examples of best practices that could improve the quality and use of analysis significantly if they were diffused more widely.

Our comparison of regulations in 2008 and 2009 generates several insights relevant to contemporary regulatory policy discussions. We find very little evidence that the quality of regulatory analysis changed between 2008 and 2009. The most significant improvement occurred in accessibility of regulatory analyses on the Internet. While this is a welcome improvement that is consistent with the Obama administration's focus on government transparency, improvements on a few other criteria were generally small and, at best, usually improved average scores from poor in 2008 to middling in 2009. In addition, we find substantial evidence that agencies were less likely to use the analysis to make decisions about proposed regulations in 2009 than in 2008.

This research also raises numerous questions that deserve further inquiry. We have not, by and large, identified why the quality and use of regulatory analysis exhibits the patterns revealed in this paper. For example, it is not obvious why some non-transfer regulations receive better analysis than others. Subject matter, deadlines, differing statutory mandates, explicit policy preferences, or department-specific factors may be part of the explanation.

It is also not clear why the quality of regulatory analysis changed very little between 2008 and 2009. Does this mean career staffers at agencies and/or OIRA consciously promote continuity between administrations? Another factor that may have played a role is that it is likely that the Bush administration focused greater effort on improving the quality of its "midnight" final regulations in 2008 relative to its proposed regulations, while the Obama administration is likely to have placed a greater focus on its own newly proposed regulations. This would suggest that the quality of analysis for proposed rules should have improved in 2009—unless most of the regulations proposed in 2009 were already in the pipeline in 2008. Research on what happened to the quality and use of analysis for final rules might shed further light on this issue.

Our data also indicate a statistically significant reduction in OIRA review time for non-transfer regulations in 2009 (from 66 to 40 days), but not for transfer regulations, which averaged about 35 days in both years. McLaughlin (2010) finds that midnight regulations receive shorter review times at OIRA. Whether OIRA review time impacts quality and use is an area ripe for further research.

Finally, we do not know why the use of regulatory analysis to make regulatory decisions declined in 2009. Indeed, we are not even sure if good analysis leads to use in decisions, or if decision makers' openness to analysis promotes good analysis, or if some third set of factors

causes both of these. Creating consistent data on the quality and use of regulatory analysis is the first step toward answering these questions.

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## Appendix 1

### Major Factors Considered When Evaluating Each Criterion

Note: Regardless of how they are worded, all questions involve qualitative analysis of how well the RIA and the *Federal Register* notice address the issue, rather than “yes/no” answers.

#### Openness

1. How easily were the RIA, the proposed rule, and any supplementary materials found online?

How easily can the proposed rule and RIA be found on the agency’s website?

How easily can the proposed rule and RIA be found on Regulations.gov?

Can the proposed rule and RIA be found without contacting the agency for assistance?

2. How verifiable are the data used in the analysis?

Is there evidence that the analysis used data?

Does the analysis provide sufficient information for the reader to verify the data?

How much of the data are sourced?

Does the analysis provide direct access to the data via links, URLs, or provision of data in appendices?

If data are confidential, how well does the analysis assure the reader that the data are valid?

3. How verifiable are the models and assumptions used in the analysis?

Are models and assumptions stated clearly?

How well does the analysis justify any models or assumptions used?

How easily can the reader verify the accuracy of models and assumptions?

Does the analysis provide citations to sources that justify the models or assumptions?

Does the analysis demonstrate that its models and assumptions are widely accepted by relevant experts?

How reliable are the sources? Are the sources peer-reviewed?

4. Was the agency’s analysis comprehensible to an informed layperson?

How well can a non-specialist reader understand the results or conclusions?

How well can a non-specialist reader understand how the analysis reached the results?

How well can a specialist reader understand how the analysis reached the results?

Are the RIA and relevant portions of the *Federal Register* notice written in “plain English”?

(Light on technical jargon and acronyms, well-organized, grammatically correct, direct language used.)

## Analysis

*For each Analysis criterion, the lettered sub-questions each receive a score of 0–5, and these are averaged and rounded to produce the score on the criterion.*

5. How well does the analysis identify the desired outcomes and demonstrate that the regulation will achieve them?
  - A. How well does the analysis clearly identify ultimate outcomes that affect citizens' quality of life?
  - B. How well does the analysis identify how these outcomes are to be measured?
  - C. Does the analysis provide a coherent and testable theory showing how the regulation will produce the desired outcomes?
  - D. Does the analysis present credible empirical support for the theory?
  - E. Does the analysis adequately assess uncertainty about the outcomes?
  
6. How well does the analysis identify and demonstrate the existence of a market failure or other systemic problem the regulation is supposed to solve?
  - A. Does the analysis identify a market failure or other systemic problem?
  - B. Does the analysis outline a coherent and testable theory that explains why the problem (associated with the outcome above) is systemic rather than anecdotal?
  - C. Does the analysis present credible empirical support for the theory?
  - D. Does the analysis adequately assess uncertainty about the existence and size of the problem?
  
7. How well does the analysis assess the effectiveness of alternative approaches?
  - A. Does the analysis enumerate other alternatives to address the problem?
  - B. Is the range of alternatives considered narrow or broad?
  - C. Does the analysis evaluate how alternative approaches would affect the amount of the outcome achieved?
  - D. Does the analysis adequately address the baseline—what the state of the world is likely to be in the absence of further federal action?
  
8. How well does the analysis assess costs and benefits?
  - A. Does the analysis identify and quantify incremental costs of all alternatives considered?
  - B. Does the analysis identify all expenditures likely to arise as a result of the regulation?
  - C. Does the analysis identify how the regulation would likely affect the prices of goods and services?
  - D. Does the analysis examine costs that stem from changes in human behavior as consumers and producers respond to the regulation?
  - E. Does the analysis adequately address uncertainty about costs?
  - F. Does the analysis identify the approach that maximizes net benefits?

- G. Does the analysis identify the cost-effectiveness of each alternative considered?
- H. Does the analysis identify all parties who would bear costs and assess the incidence of costs?
- I. Does the analysis identify all parties who would receive benefits and assess the incidence of benefits?

## Use

9. Does the proposed rule or the RIA present evidence that the agency used the Regulatory Impact Analysis?

Does the proposed rule or the RIA assert that the analysis of outcomes, benefits, the systemic problem, alternatives, or costs affected any decisions?

How many aspects of the proposed rule did the analysis affect?

How significant are the decisions the analysis affected?

10. Did the agency maximize net benefits or explain why it chose another option?

Did the analysis calculate net benefits of one or more options so that they could be compared?

Did the analysis calculate net benefits of all options considered?

Did the agency either choose the option that maximized net benefits or explain why it chose another option?

How broad a range of alternatives did the agency consider?

11. Does the proposed rule establish measures and goals that can be used to track the regulation's results in the future?

Does the RIA or *Federal Register* notice contain analysis or results that could be used to establish goals and measures to assess the results of the regulation in the future?

In the RIA or the *Federal Register* notice, does the agency commit to performing some type of retrospective analysis of the regulation's effects?

Does the agency explicitly articulate goals for at major outcomes the rule is supposed to affect?

Does the agency establish measures for major outcomes the rule is supposed to affect?

Does the agency set targets for measures of major outcomes the rule is supposed to affect?

12. Did the agency indicate what data it will use to assess the regulation's performance in the future and establish provisions for doing so?

Does the RIA or *Federal Register* notice demonstrate that the agency has access to data that could be used to assess some aspects of the regulation's performance in the future?

Would comparing actual outcomes to outcomes predicted in the analysis generate a reasonably complete understanding of the regulation's effects?

Does the agency suggest it will evaluate future effects of the regulation using data it has access to or commits to gathering?

Does the agency explicitly enumerate data it will use to evaluate major outcomes the regulation is supposed to accomplish in the future?

Does the analysis demonstrate that the agency understands how to control for other factors that may affect outcomes in the future?

**Appendix 2: Crosswalk of 2010 OMB Regulatory Impact Analysis Checklist with Mercatus Regulatory Report Card evaluation criteria**

<b>OMB Checklist</b>	<b>Mercatus Evaluation Criteria</b>
Does the RIA include a reasonably detailed description of the need for the regulatory action?	Criterion 6: How well does the analysis demonstrate the existence of a market failure or other systemic problem the regulation is supposed to solve?
Does the RIA include an explanation of how the regulatory action will meet that need?	Criterion 5: How well does the analysis identify the desired outcomes and demonstrate that the regulation will achieve them?
Does the RIA use an appropriate baseline (i.e., best assessment of how the world would look in the absence of the proposed action)?	Criterion 7, question D: Does the analysis adequately assess the baseline—what the state of the world is likely to be in the absence of further federal action?
Is the information in the RIA based on the best reasonably obtainable scientific, technical, and economic information and is it presented in an accurate, clear, complete, and unbiased manner?	<p>Criterion 2: How verifiable are the data used in the analysis?</p> <p>Criterion 3: How verifiable are the models or assumptions used in the analysis?</p> <p>Criterion 4: Was the analysis comprehensible to an informed layperson?</p> <p><i>Criterion 3 includes an assessment of whether the models and assumptions are based on peer-reviewed or otherwise reliable publications. However, the Mercatus evaluation does not assess the quality of the underlying science.</i></p>
Are the data, sources, and methods used in the RIA provided to the public on the Internet so that a qualified person can reproduce the analysis?	<p>Criterion 1 takes the first step by assessing how easily the RIA itself can be found on the Internet.</p> <p>Criteria 3 and 4 include an assessment of how easily the reader could find the underlying data, sources, and methods from information or links provided in the RIA or the <i>Federal Register</i> notice.</p>
To the extent feasible, does the RIA quantify and monetize the anticipated benefits from the regulatory action?	Criterion 5, question 2: How well does the analysis identify how the outcomes are to be measured?

To the extent feasible, does the RIA quantify and monetize the anticipated costs?	Multiple questions under criterion 8 (Benefits and Costs) assess how well the analysis identifies, quantifies, and monetizes costs.
Does the RIA explain and support a reasoned determination that the benefits of the intended regulation justify its costs (recognizing that some benefits and costs are difficult to quantify)?	<p>Criterion 8, question F: Does the analysis identify the approach that maximizes net benefits?</p> <p>Criterion 8, question G: Does the analysis identify the cost-effectiveness of each alternative considered?</p>
Does the RIA assess the potentially effective and reasonably feasible alternatives?	Criterion 7: How well does the analysis assess the effectiveness of alternative approaches?
Does the preferred option have the highest net benefits (including potential economic, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires a different approach?	Criterion 10: Did the agency maximize net benefits or explain why it chose another option?
Does the RIA include an explanation of why the planned regulatory action is preferable to the identified potential alternatives?	<p>Criterion 9: Does the proposed rule or RIA present evidence that the agency used the Regulatory Impact Analysis?</p> <p>Criterion 10: Did the agency maximize net benefits or explain why it chose another option?</p>
Does the RIA use appropriate discount rates for the benefits and costs that are expected to occur in the future?	Considered under criterion 5, question 2: How well does the analysis identify how the outcomes are to be measured?, as well as several questions about measurement and comparison of benefits and costs under criterion 8 (Benefits and Costs).
Does the RIA include, if and where relevant, an appropriate uncertainty analysis?	<p>Criterion 5, question E: Does the analysis adequately assess uncertainty about the outcomes?</p> <p>Criterion 6, question D: Does the analysis adequately assess uncertainty about the existence and size of the problem?</p> <p>Criterion 8, question E: Does the analysis adequately address uncertainty about costs?</p>

Does the RIA include, if and where relevant, a separate description of the distributive impacts and equity (including transfer payments and effects on disadvantages or vulnerable populations)?	<p>Criterion 8, question H: Does the analysis identify all parties who would bear costs and assess the incidence of costs?</p> <p>Criterion 8, question I: Does the analysis identify all parties who would receive benefits and assess the incidence of benefits?</p>
Does the analysis include a clear, plain-language executive summary, including an accounting statement that summarizes the benefit and cost estimates for the regulatory action under consideration, including the qualitative and non-monetized benefits and costs?	Criterion 4: Was the analysis comprehensible to an informed layperson?
Does the analysis include a clear and transparent table presenting (to the extent feasible) anticipated benefits and costs (qualitative and quantitative)?	Criterion 4: Was the analysis comprehensible to an informed layperson?
<i>Goals and measures to assess results of the regulation in the future – No content.</i>	Criterion 11: Does the proposed rule establish measures and goals that can be used to track the regulation’s results in the future?
<i>Provisions for gathering data to assess results of the regulation in the future – No content.</i>	Criterion 12: Did the agency indicate what data it will use to assess the regulation’s performance in the future and establish provisions for doing so?

### Appendix 3: Summary Statistics on All Criteria and Sub-Questions

#### 2008

Variable	N	Mean	Std. Dev.	Min	Max
Total	45	27.30	9.46	7	43
Openness	45	11.04	3.26	4	18
Analysis	45	8.53	4.48	0	16
Use	45	7.73	3.31	1	14
Criterion 1	45	3.53	1.36	0	5
Criterion 2	45	2.24	1.19	0	5
Criterion 3	45	2.33	1.30	0	5
Criterion 4	45	2.93	1.21	0	5
Criterion 5	45	2.36	1.40	0	5
5A	45	3.31	1.52	0	5
5B	45	2.71	1.74	0	5
5C	45	2.22	1.59	0	5
5D	45	1.67	1.60	0	5
5E	45	2.00	1.86	0	5
Criterion 6	45	1.80	1.47	0	5
6A	45	2.31	1.68	0	5
6B	45	2.00	1.75	0	5
6C	45	1.71	1.59	0	5
6D	45	0.82	1.28	0	5
Criterion 7	45	2.29	1.36	0	4
7A	45	2.78	1.86	0	5
7B	45	1.96	1.45	0	5
7C	45	1.98	1.64	0	5
7D	45	2.04	1.30	0	5
Criterion 8	45	2.09	0.996	0	4
8A	45	2.93	1.16	0	5
8B	45	3.18	1.01	1	5
8C	45	1.38	1.34	0	5
8D	45	1.56	1.47	0	5
8E	45	1.78	1.80	0	5
8F	45	1.91	1.66	0	5
8G	45	1.04	1.17	0	5
8H	45	2.82	1.13	1	5
8I	45	1.60	1.34	0	5
Criterion 9	45	2.44	1.32	0	5
Criterion 10	45	2.20	1.46	0	5
Criterion 11	45	1.36	1.03	0	5
Criterion 12	45	1.73	1.10	0	5

#### 2009

Variable	N	Mean	Std. Dev.	Min	Max
Total	42	27.03	9.37	5	48
Openness	42	12.00	2.82	3	17
Analysis	42	8.38	4.52	1	18
Use	42	6.64	3.56	0	15
Criterion 1	42	4.05	0.85	2	5
Criterion 2	42	2.50	1.50	0	5
Criterion 3	42	2.62	1.23	0	5
Criterion 4	42	2.83	0.88	1	4
Criterion 5	42	2.38	1.43	0	5
5A	42	3.36	1.61	0	5
5B	42	2.52	1.63	0	5
5C	42	2.21	1.60	0	5
5D	42	2.02	1.56	0	5
5E	42	1.76	1.69	0	5
Criterion 6	42	1.60	1.15	0	4
6A	42	2.21	1.70	0	5
6B	42	1.50	1.29	0	4
6C	42	1.21	1.24	0	4
6D	42	0.88	1.31	0	4
Criterion 7	42	2.21	1.42	0	5
7A	42	2.83	1.58	0	5
7B	42	1.86	1.32	0	5
7C	42	1.90	1.76	0	5
7D	42	1.93	1.44	0	5
Criterion 8	42	2.19	1.15	0	5
8A	42	2.83	1.34	0	5
8B	42	3.24	1.32	0	5
8C	42	2.07	1.69	0	5
8D	42	1.60	1.48	0	5
8E	42	1.76	1.59	0	5
8F	42	1.33	1.66	0	5
8G	42	1.24	1.54	0	5
8H	42	3.00	1.17	0	5
8I	42	1.86	1.47	0	5
Criterion 9	42	2.24	1.36	0	5
Criterion 10	42	1.62	1.56	0	5
Criterion 11	42	1.29	0.97	0	4
Criterion 12	42	1.50	1.04	0	4

#### Appendix 4: Average changes without separating transfer and non-transfer regulations

The table below shows the change in average scores on individual criteria and on sub-questions for the Analysis criteria. We only report average scores whose differences are statistically significant at the 85 percent level or higher. Even for individual criteria or questions, there is very little evidence that average scores changed much between 2008 and 2009. As noted in the text, some of the changes identified below are driven by the increased proportion of transfer regulations in 2009.

#### Score Changes on Individual Criteria and Questions

	2008 (n=45)	2009 (n=42)	Change	T-stat.
<b>Openness</b>				
Criterion 1 – Accessibility	3.53	4.05	0.51	2.10**
<b>Analysis</b>				
Question 6B – Coherent Theory of Systemic Problem	2.00	1.50	-0.50	1.60
Question 6C – Empirical Evidence of Systemic Problem	1.71	1.21	-0.50	1.62
Question 8C – Effects on Prices of Goods and Services	1.38	2.07	0.69	2.13**
Question 8F – Identifies approach that maximizes net benefits	1.91	1.33	-0.58	1.62
<b>Use</b>				
Criterion 10 – Decision Cognizant of Net Benefits	2.20	1.62	-0.58	1.80*

Statistical significance: \*90 percent \*\*95 percent

Maximum possible score on any criterion or question = 5 points.

The increase on criterion 1 (Accessibility) indicates that agency regulatory analyses were somewhat easier to find online in 2009 than in 2008. This reflects the fact that regulatory analyses were easier to find on agency websites and *Federal Register* preambles provided clearer information about how to obtain a copy of the Regulatory Impact Analysis. Some of the improvement may also stem from the redesign of the regulations.gov web site, which may have made regulations and accompanying analysis easier to find.

The lower average scores on questions 6B (Coherent Theory of Systemic Problem) and 6C (Empirical Evidence of Systemic Problem) suggest that agencies may be somewhat less likely to demonstrate that proposed regulations actually address a market failure, government failure, or other systemic problem in 2009. Average scores were already quite low in 2008; this weakness may have gotten even weaker in 2009.

The higher average score on criterion 8C (Effects on Prices of Goods and Services) indicates that agencies were more likely in 2009 to discuss the effects of regulatory costs on the prices of goods and services. This is something that agencies usually do either reasonably well or pretty poorly; there are few mid-range scores. The increase from 1.38 to 2.07 implies that this improvement occurred only for a few regulations, or that agencies provided just a bit more discussion or evidence in place of unsupported assertions.

The lower scores on question 8F (Identifies Alternative that Maximizes Net Benefits) and criterion 10 (Decision Cognizant of Net Benefits) suggest that regulatory analyses in 2009 were less likely to assess the net benefits of alternatives, and decision makers were less likely to consider net benefits when choosing among alternatives. Agencies usually do these things either reasonably well or not at all, so this shift suggests that fewer regulations in 2009 identified or considered net benefits of alternatives.

### Appendix 5: Use vs. Quality Employing Quality x Year Interaction Variable

Explanatory Variables	Dependent Variable: Use of Analysis Score (Criteria 9-12)			
	(1)	(2)	(3)	(4)
Quality (Criteria 1-8)	0.30 [6.98***]	0.28 [6.26***]	0.23 [3.67***]	0.22 [3.41***]
Year 2008 Dummy X Quality		0.06 [2.21***]	0.05 [1.79*]	0.06 [1.98**]
Transfer Regulation			-0.88 [-0.95]	-1.28 [-1.34]
Recovery Act Regulation				2.07 [1.57]
Constant	1.14 [1.24]	1.06 [1.18]	1.64 [0.91]	2.70 [1.63]
N	87	87	87	87
Adjusted R <sup>2</sup>	0.36	0.39	0.38	0.40

Ordinary least squares regressions; t-statistics in parentheses.  
 Statistical significance: \*\*\*1 percent \*\*5 percent \*10 percent

## CURRICULUM VITAE

**Dr. Jerry Ellig**  
**Senior Research Fellow**  
**Mercatus Center, George Mason University**

**January 2011**

### **CURRENT RESEARCH INTERESTS**

Regulatory process and the role of regulatory impact analysis.

Regulation of electronic commerce, telecommunications, broadband, wireless, and other network industries.

Government performance management – outcome measurement, evaluation, and performance reporting.

### **UNIVERSITY EDUCATION**

Doctor of Philosophy, Economics, George Mason University, January 1988. Dissertation title: Law, Economics, and Organized Baseball: Analysis of a Cooperative Venture.

Master of Arts, Economics, George Mason University, May 1986.

Bachelor of Arts, Economics, Xavier University, May 1984, *magna cum laude*.

### **CURRENT POSITION**

Senior Research Fellow, Mercatus Center at George Mason University, 2004-present.

Member of the graduate faculty, College of Humanities and Social Sciences, George Mason University, 2007-present.

### **PREVIOUS EMPLOYMENT**

Adjunct Professor, George Mason University School of Law, 2005-2007.

Deputy Director, Office of Policy Planning, Federal Trade Commission, Aug. 2001-July 2003.  
Served as Acting Director, Feb.-May 2003.

Senior Research Fellow, Mercatus Center at George Mason University, July 1996-July 2001.

Senior Economist, U.S. Congress Joint Economic Committee, Sept. 1995-June 1996.

Assistant Professor of Economics, George Mason University, Aug. 1989-July 1996.  
*Program on Social & Organizational Learning, 1992-1996*  
*Department of Economics, 1989-1992*

Management Consultant, Koch Management Center, Feb. 1992-June 1993.

Associate Director, Center for Market Processes, Aug. 1989-July 1995.

Research Director, CSE Foundation, Washington, DC, Dec. 1987-Aug. 1989.

Research Economist, CSE Foundation, Aug. 1985-Dec. 1987.

Instructor, Department of Economics, George Mason University, June-Aug. 1985.

## **PUBLIC SERVICE**

Member, Virginia Attorney General's Government and Regulatory Reform Task Force, June 2008-09.

Member, Finance Advisory Committee, Corpus Christi School, Falls Church, VA, 2004-present.

## **SCHOLARLY PUBLICATIONS**

### ***Books***

*Government Performance Reports: Lessons and Best Practices from Ten Years of GPRA Reporting*. New York: Taylor & Francis, forthcoming 2011. Volume published as part of the American Society for Public Administration Series in Public Administration and Public Policy. (With M. McTigue and H. Wray.)

*Dynamic Competition and Public Policy: Technology, Innovation, and Antitrust Issues*, a book of essays edited with an introduction. New York: Cambridge University Press, 2001.

*New Horizons in Natural Gas Deregulation*, a book of essays edited with an introduction  
Norwich, CT: Praeger, 1996. (Co-edited with J. Kalt.)

*Municipal Entrepreneurship and Energy Policy: A Five-Nation Study of Politics, Innovation, and Social Change.* London: Gordon and Breach, 1994. (Co-authored with A. Woodward and T. Burns.)

### ***Law Journal Symposium***

Organized symposium on regulation of electronic commerce jointly sponsored by the George Mason University School of Law and the Mercatus Center, published in the *Journal of Law, Economics, and Policy* 3:2, Spring 2007.

### ***Articles***

“Talking the Talk, or Walking the Walk? Outcome-Based Regulation of Transnational Investment,” *New York University Journal of International Law and Politics*, 41:2, Winter 2009. (With H. Shadab.)

“Toward a More Perfect Union: Regulatory Analysis and Performance Management,” *Florida State University Business Review* 8:1, Spring/Summer 2009. (With G. Brito.)

“Homeland Security and Regulatory Analysis: Are We Safe Yet?,” *Rutgers Law Journal* 40:1, Fall 2008. (With J. Belcore.)

“A Tale of Two Commissions: Net Neutrality and Regulatory Analysis,” *CommLaw Conspectus: Journal of Communications Law and Policy* 16:1, 2007. (With G. Brito.)

“Outcomes and Alternatives for Universal Telecommunications Service: A Case Study of Texas,” *Texas Review of Law & Politics*, Fall 2007. (With J. Rotondi.)

“The Politics of Wine: Trade Barriers, Interest Groups, and the Commerce Clause,” *Journal of Politics* 69:3, August 2007. (With A. Wiseman.)

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“Video Killed the Franchise Star: The Consumer Cost of Cable Franchising and Proposed Policy Alternatives,” *Journal of Telecommunications and High Technology Law* 5, 2006. (With G. Brito.)

“Regulatory Status of VoIP in the Post-Brand X World,” *Santa Clara Computer and High Technology Law Journal* 23, 2006. (With A. Walling.)

“The Irony of Transparency: Unintended Consequences of Wireless Truth-in-Billing,” *Loyola Consumer Law Review* 19, 2006. (With J.N. Taylor.)

“Buried Online: State Laws that Limit E-Commerce in Caskets,” *The Elder Law Journal* 14:2, 2006. (With A. Agarwal.)

“Costs and Consequences of Federal Telecommunications Regulations,” *Federal Communications Law Journal* 58:1, 2006.

“Intercarrier Compensation and Consumer Welfare,” *University of Illinois Journal of Law, Technology, & Policy* 2005:1, 2005.

“What Did the Unbundled Network Element Platform Cost?,” *CommLaw Conspectus: Journal of Communications Law and Policy* 14:1, 2005. (With J.N. Taylor.)

“Market and Nonmarket Barriers to Internet Wine Sales: The Case of Virginia,” *Business and Politics* 6:2, 2004. (With A. Wiseman.)

“Interstate Trade Barriers and Potential Regulatory Competition: The Case of Direct Wine Shipping,” *Journal of Private Enterprise*, Spring 2004. (With A. Wiseman.)

“Competition and Quality in Deregulated Industries: Lessons for the Education Debate,” *Texas Review of Law & Politics* 6, Spring 2002. (With K. Kelly.)

“Telecommunications Mergers, Managerial Expectations, and Theories of the Firm,” in Peter Klein and Nikolai Foss (eds.), *Entrepreneurship and the Firm*. Aldershot, UK: Edward Elgar, 2002.

“Railroad Deregulation and Consumer Welfare,” *Journal of Regulatory Economics* 21:2, 2002.

“Internal Markets and the Theory of the Firm,” *Managerial and Decision Economics* 22:4-5, June-Aug. 2001.

“Dynamic Competition and Monopoly Regulation,” in Michael Crew (ed.), *Expanding Competition in Regulated Industries*. Boston: Kluwer Academic Publishers, 2000. (With D. Lin.)

“Organizational Economics and the Market Based Management Framework: Toward a Common Research Agenda,” *Journal of Private Enterprise* 12:1, Fall 1996.

“Subjectivism, Discovery, and Boundaryless Careers,” in Michael Arthur and Denise Rousseau (eds.), *Boundaryless Careers: Work, Mobility, and Learning in the New Organizational Era*, Oxford University Press, 1996. (With T. Thachankery.)

“Intrastate Pipeline Regulation: Lessons from the Texas Experience,” in Jerry Ellig and Joseph Kalt (eds.), *New Horizons in Natural Gas Deregulation*. Westport, CT: Praeger, 1996.

“Market-Based Management at Koch Industries: Discovery, Dissemination, and Integration of Knowledge,” *Competitive Intelligence Review* 6:4, Winter 1996. (With T. Cowen.)

“From Austrian Economics to Market-Based Management,” *Journal of Private Enterprise* 11:1, Fall 1995. Spanish translation published in *Libertas* 13, May 1996. Article reprinted in *Journal of Private Enterprise* Special Issue 1997, “The Best from the Journal, 1985-97.”

“Governments, Firms, and the Impossibility of Central Planning,” in Pal Foss (ed.), *Economic Approaches to Organizations and Institutions*. London: Dartmouth, 1995. (With D. Lavoie.)

“The Economics of Regulatory Takings,” *South Carolina Law Review* 46:6, Summer 1995.

“Why Do Regulators Regulate? The Case of the Southern California Gas Market,” *Journal of Regulatory Economics*, May 1995.

“Industrial Organization,” entry in Peter Boettke (ed.), *The Elgar Companion to Austrian Economics*. Aldershot, U.K.: Edward Elgar, 1994.

“An Economic View of the Effectiveness of Public and Private Schools,” in Gary Bowman, Simon Hakim, and Paul Seidenstat (eds.), *Privatizing Education and Educational Choice*. Westport, CT: Praeger, 1994. (With D. Beers.)

“Airline Deregulation and Consumer Welfare,” *Transportation Practitioners Journal*, Summer 1994. (With W. Winegarten.)

“The Consumer Impact of Federal Natural Gas Regulation,” *Transportation Practitioners Journal*, Spring 1993.

“Scale, Scope, and Regulation in the Texas Gas Transmission Industry,” *Journal of Regulatory Economics*, March 1993. (With M. Giberson.)

“The Environmental Impact of Public Utility Regulation: Kern County and the Case of the Missing Gas Pipelines,” in Michael Crew (ed.), *Economic Innovations in Public Utility Regulation*. Boston: Kluwer, 1992.

“Downzoning and Development in a Dynamic Economy: The Case of Fairfax County, Virginia,” in Richard C. Collins (ed.), *Development, Expectations, and the Zoning Power: the Concept of Vested Rights*. Charlottesville, Virginia: Institute for Environmental Negotiation, 1992.

“Untwisting the Strands of Chicago Antitrust,” *Antitrust Bulletin*, Winter 1992.

“Beneficent Bias: The Case Against Regulating Computerized Reservation Systems,” *Journal of Air Law and Commerce* 57, Spring 1992. (With D. Boudreaux.)

“Social Contracts and Pipe Dreams,” *Contemporary Policy Issues* 10:1, Jan. 1992. (With J. High.)

“The Baseball Anomaly and Congressional Intent,” in J. High (ed.), *Regulation: Economic Theory and History*. University of Michigan Press, 1991.

“Endogenous Change and the Economic Theory of Regulation,” *Journal of Regulatory Economics* 3, Summer 1991. Reprinted in R. Ekelund, Jr., *The Foundations of Regulatory Economics*. Cheltenham, UK: Edward Elgar Publishing, 1999.

“Computer Reservation Systems, Creative Destruction, and Consumer Welfare,” *Transportation Law Journal* 19:2, Summer 1991.

“The Private Supply of Education: Some Historical Evidence,” in T. Cowen (ed.), *The Theory of Market Failure*. Fairfax: George Mason University Press, 1988. (With J. High.)

“Do We Walk With Walras?,” *Atlantic Economic Journal* 14:2, July 1986.

### **Book Reviews**

Review of Paul Stephen Dempsey and Andrew Goetz, *Airline Deregulation and Laissez-Faire Mythology*, *Transportation Practitioners Journal*, Fall 1992.

Review of Robert Crandall, *After the Breakup: U.S. Telecommunications in a More Competitive Era*, *Reason*, May 1991.

“A Business Historian's History,” review of Thomas McCraw (ed.), *The Essential Alfred Chandler*, *Market Process* 8, 1990.

Review of Israel Kirzner, *Discovery and the Capitalist Process*, *Market Process* 5:2, Fall 1987.

### **Working Papers**

“Competitive Exclusion with Heterogeneous Sellers: The Case of State Wine Shipping Laws,” Mercatus Center Working Paper 11-03, January 2011. (With A. Wiseman), [http://mercatus.org/sites/default/files/publication/wp1103-competitive-exclusion-with-heterogeneous-sellers\\_0.pdf](http://mercatus.org/sites/default/files/publication/wp1103-competitive-exclusion-with-heterogeneous-sellers_0.pdf).

“Assessing the Quality of Regulatory Analysis: A New Evaluation and Data Set for Policy Research,” Mercatus Center Working Paper 10-75, November 2010. (With J. Morrall.), <http://mercatus.org/sites/default/files/publication/wp1075-assessing-the-quality-of-regulatory-analysis.pdf>.

“Does Haste Make Waste in Regulatory Analysis?,” Mercatus Center Working Paper 10-57, November 2010. (With P. McLaughlin), <http://mercatus.org/sites/default/files/publication/wp1057-does-haste-make-waste-in-federal-regulations.pdf>.

“Has GPRA Increased the Availability and Use of Performance Information?,” Mercatus Center Working Paper 09-03, November 2010, <http://mercatus.org/sites/default/files/publication/wp0903-has-gpra-increased-performance-information.pdf>

“The Quality and Use of Regulatory Analysis in 2008,” Mercatus Center Working Paper 10-34, June 2010. (With P. McLaughlin), [http://mercatus.org/sites/default/files/publication/WP1034\\_The%20Quality%20and%20Use%20of%20Regulatory%20Analysis%202008\\_0.pdf](http://mercatus.org/sites/default/files/publication/WP1034_The%20Quality%20and%20Use%20of%20Regulatory%20Analysis%202008_0.pdf).

“Ten Years of Results from the Results Act,” Mercatus Center Working Paper 10-21, May 2010, [http://mercatus.org/sites/default/files/publication/WP1021\\_Ten%20Years%20of%20Results%20from%20the%20Results%20Act.pdf](http://mercatus.org/sites/default/files/publication/WP1021_Ten%20Years%20of%20Results%20from%20the%20Results%20Act.pdf)

## **SELECTED POLICY TESTIMONY, COMMENTS, AND PUBLICATIONS**

“Competition, Consumer Welfare and State Alcohol Regulation,” written testimony submitted to the Committee on the Judiciary, US House of Representatives, Sept. 29, 2010.

“Public Interest Comment on Lead Clearance and Clearance Testing Requirements,” submitted to the Environmental Protection Agency, July 1, 2010.

“Public Interest Comment on the Connect America Fund,” submitted to the Federal Communications Commission, July 9, 2010.

“Effects on Wine Sales, Tax Revenues, and Consumer Welfare,” testimony before the State of Tennessee Joint Study Committee on Wine in Grocery Stores, Dec. 8, 2009.

“Mobile Wireless Competition Notice of Inquiry,” submitted to the Federal Communications Commission, Oct. 7, 2009. (With G. Brito.)

“Public Interest Comment on the FCC’s National Broadband Plan Notice of Inquiry,” submitted to the Federal Communications Commission, June 9, 2009. (With C. Forsberg.)

“Recovery Act Oversight,” testimony before the House Committee on Science and Technology, Subcommittee on Investigations and Oversight, May 5, 2009.

“Performance Measures for the High Cost Universal Service Fund,” written testimony submitted to the U.S. House Committee on Energy and Commerce, Subcommittee on Communications, Technology, and the Internet, March 12, 2009.

“Public Interest Reply Comment on the FCC’s Comprehensive Review of the Universal Service Fund Management and Oversight,” submitted to the Federal Communications Commission, December 15, 2008. (With M. McTigue.)

“Public Interest Comment on the Department of Transportation’s Proposed Amendment to the Policy Regarding the Establishment of Airport Rates and Charges,” April 2, 2008. (With M. Adams).

“Consumer Wireless Issues,” testimony before the Senate Committee on Commerce, Science, and Transportation, Oct. 17, 2007.

“The Contribution of the Social Sciences to the Energy Challenge,” testimony before the House Committee on Science and Technology, Subcommittee on Research and Science Education, Sept. 25, 2007.

“Measure by Measure: Why Federal Budgeting is a Faith-Based Initiative,” *Opinion Journal*, April 11, 2007.

“Virginia’s Electric Power Play,” *Washington Times*, April 9, 2007.

“It’s a Bad Time to Abandon Choice,” *Richmond Times-Dispatch*, April 2, 2007.

“Politicians Shake Down the Net,” *Los Angeles Times*, June 27, 2006.

“Pine Box Politics,” *TCS Daily*, May 1, 2006.

“Competition and Convergence in Communications,” testimony before the Senate Committee on Commerce, Science, and Transportation, March 30, 2006.

“A Dynamic Perspective on Government Broadband Initiatives,” Reason Public Policy Institute Policy Study 349, Nov. 2006.

“Texas Telecommunications: Everything’s Dynamic Except the Pricing,” Texas Public Policy Foundation Research Report, Jan. 2005 (With R. Crandall).

“Wine Wars: Uncorking E-Commerce?,” *Regulation*, Winter 2004-05 (With A. Agarwal and T. Zywicki.)

Coauthor, *Possible Anticompetitive Barriers to E-Commerce: Wine*, Report from the Staff of the Federal Trade Commission, July 2003. (with lead author A. Agarwal and significant contributions from a team of FTC staff.)

“Financial Markets as Information Monopolies?,” *Regulation* 23:3, 2000. (With S. Brown-Hruska.)

“Issues Related to Market Fragmentation,” submitted to the Securities and Exchange Commission, May 10, 2000. (With S. Brown-Hruska).

“Regulation of Market Information, Fees and Revenues,” submitted to the Securities and Exchange Commission, March 31, 2000. (With S. Brown-Hruska).

“The Universal Tuition Tax Credit,” Virginia Institute for Public Policy, September 1999. (With C. Moody).

“Regulation of Short-Term and Long-Term Gas Transportation,” submitted to the Federal Energy Regulatory Commission, April 1999.

“Electricity: Price Spikes by Design?,” *Regulation* 22:2, 1999, pp. 20-22. (With R. Michaels.)

“Price Spike Redux: A Market Emerged, Remarkably Rational,” *Public Utilities Fortnightly*, Feb. 1, 1999. (With R. Michaels.)

*Electricity Passes the Market Test: Price Spikes in the Summer of 1998*, Mercatus Center monograph, November 1998. (With R. Michaels).

“Electricity Restructuring and Consumer Interests: Lessons from Other Industries,” *Electricity Journal*, Jan./Feb. 1998. (With R. Crandall). Reprinted in *Public Utilities Reports* (1999).

*Economic Deregulation and Customer Choice: Lessons for the Electric Industry*, Center for Market Processes monograph, January 1997. (With R. Crandall).

“Cybernomics in the 21<sup>st</sup> Century,” Joint Economic Committee Staff Report, January 1997.

“The \$7.7 Billion Mistake: Federal Barriers to State and Local Privatization,” Joint Economic Committee Staff Report, February 1996.

“The Economics of Regulatory Takings,” in Roger Clegg (ed.), *Regulatory Takings*. Washington, DC: National Legal Center for the Public Interest, 1994.

*Public Utilities and the Market Process: Regulation or Competition?* Houston: Institute for Energy Research, 1992. Reprinted 1993.

*Set Fair: A Proposal for Privatising Weather Forecasting*. London: Social Affairs Unit, 1989.

“Amtrak,” in *Privatization: Toward More Effective Government*, Report of the President's Commission on Privatization. Washington: USGPO, March 1988. (With C. Oliver and D. Witt.)

“Federal Asset Sales,” in *Privatization: Toward More Effective Government*, Report of the President's Commission on Privatization. Washington: USGPO, March 1988. (With C. Oliver and D. Witt)

Numerous additional articles in newspapers and magazines nationwide, including the *Wall Street Journal*, *Barron's*, *New York Times*, *Washington Post*, *Los Angeles Times*, *Journal of Commerce*, *Reason*, and *Investor's Business Daily*.

Additional comments to regulatory agencies and other publications I have authored for the Mercatus Center at George Mason University are available at <http://www.mercatus.org/PeopleDetails.aspx?id=17058>.

## **PUBLICATIONS FOR BUSINESS AND GOVERNMENT EXECUTIVES**

“Agency Performance Impact from GPRA: A Look at Scorecards,” *Government ELearning* 2:1, Spring 2010.

“Federal Performance Reporting: What a Difference Ten Years Makes,” *The Public Manager* 38:2, Summer 2009.

“Fantasy Awards for Federal Performance Reporting,” *Federal Times*, Aug. 4, 2008.

“Measuring Performance Reporting Quality,” *The Public Manager* 37:2, Summer 2008. (With H. Wray.)

“Scoring Government Performance Reports,” *The Public Manager* 36:2, Summer 2007.

*Performance Report Scorecard: Which Federal Agencies Best Inform the Public?* Arlington, VA: Mercatus Center at George Mason University, 2004, 2005, 2006, 2007, 2008, 2009. (With M. McTigue and H. Wray.)

“Knee-Jerk Responses to FEMA's Problems Will Help No One,” *The Hill*, Sept. 27, 2005.

*Performance Report Scorecard: Which Federal Agencies Inform the Public?* Arlington, VA: Mercatus Center at George Mason University, 2000 and 2001. (With M. McTigue and S. Richardson.)

*Learning from the Leaders: Results-Based Management at the Federal Emergency Management Agency*. Arlington, VA: Mercatus Center at George Mason University, March 2000.

“Internal Pricing for Corporate Services,” Center for the Study of Market Processes Working Paper, Sept. 13, 1993. Spanish translation published in *Libertas*, October 1996.

*Introduction to Market-Based Management.* Fairfax, VA: Center for Market Processes, 1993. (With W. Gable.)

## **CONSULTING STUDIES**

*Study of Regulatory Responsibilities, Policies and Activities of the State Corporation Commission.* Fairfax, VA: School of Public Policy, George Mason University, Aug. 2001. (Author of section on gas and electricity.) Report prepared for the Virginia General Assembly Joint Subcommittee Studying the Regulatory Responsibilities of the State Corporation Commission.

*Testimony on Behalf of Southwestern Electric Power Company Regarding the Matter of a Progress Report to the General Assembly on the Development of Competition in Electric Markets and the Impact, if Any, on Retail Customers,* September 2000. Direct Testimony submitted to the Arkansas Public Service Commission, Docket No. 00-190-U.

*Economic Deregulation: The U.S. Experience,* Nov. 2000. Report prepared for Adam Fine Consulting. (With K. Costello.)

*Regulatory Reform in Electricity: Precedents from Other Industries,* Nov. 4, 1994. Report submitted in the Pennsylvania Public Utility Commission's electric restructuring proceeding.

## **TESTIMONY**

Testified before a variety of government bodies, including:

U.S. International Trade Commission

U.S. Senate, Committee on Commerce, Science, and Transportation

U.S. Senate, Judiciary Committee, Subcommittee on the Constitution

U.S. Senate, Energy and Natural Resources Committee, Subcommittee on Energy Regulation and Conservation

U.S. House, Committee on Science and Technology, Subcommittee on Investigations and Oversight

U.S. House, Committee on Science and Technology, Subcommittee on Research and Science Education

U.S. House, Committee on Financial Services

U.S. House, Government Operations Committee, Subcommittee on Transportation and Government Activities

U.S. House, Commerce Committee, Subcommittee on Energy and Power

U.S. House, Commerce Committee, Subcommittee on Telecommunications and Consumer Protection

Connecticut Board of Examiners for Opticians

Hawaii State Legislature, joint hearing of 6 House and Senate committees

New York State Senate Advisory Commission on Privatization

North Carolina State Bar  
Tennessee Joint Study Committee on Wine in Grocery Stores  
Oregon House, Electric Power Deregulation Committee  
Oregon Senate, Committee on Business and Consumer Affairs  
Virginia General Assembly, Senate Committee on Finance

## **TEACHING EXPERIENCE**

### ***Undergraduate courses***

Microeconomic Principles (class size: 80-200)  
Economics of Industrial Organization (class size: 15-45)  
Economics of Transportation (class size: 40-85)

### ***Graduate economics courses***

Regulation and the Market Process (Regulatory Analysis)  
Economics of Telecommunications Regulation  
Industrial Organization and Public Policy  
Managerial Economics  
Austrian Theory of the Market Process  
Workshop in Business History, Entrepreneurship, and the Market Process

### ***Law courses***

Clinic on writing public interest comments on federal regulations.

## **HONORS/AWARDS**

Association for Private Enterprise Education award for best paper published in the *Journal of Private Enterprise* in 1995.

William Snavelly Award for outstanding graduate student in economics, GMU, 1988.

H.B. Earhart Fellowship, 1986-87.

Claude R. Lambe Research Assistantship, 1985-86 and 1984-85.

Craig Menderson Memorial Economics Award, Xavier University, 1984.

## **PROFESSIONAL AFFILIATIONS**

Member, Society for Risk Analysis, Society of Government Economists, Association of Private Enterprise Education.

Referee, *Journal of Law & Economics*, *Economic Inquiry*, *Telecommunications Policy*, *Journal of Regulatory Economics*, *Public Productivity and Management Review*, *Journal of Comparative Economics*, *Review of Austrian Economics*, Hong Kong Centre for Economic Research.

Committee on Oversight and Government Reform  
Witness Disclosure Requirement – "Truth in Testimony"  
Required by House Rule XI, Clause 2(g)(5)

Name: JERRY ELLIG

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

NONE

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

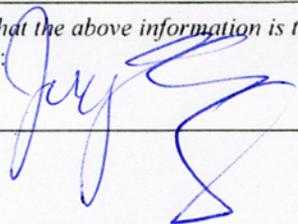
I AM A SENIOR RESEARCH FELLOW EMPLOYED BY THE  
MERCATUS CENTER AT GEORGE MASON UNIVERSITY.

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NONE

I certify that the above information is true and correct.

Signature:



Date:

2/7/2011