The Daily Dish

A Peek Behind the Regulatory Curtain

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A report recently released by Senate Finance Committee Chairman Orin Hatch's (R-Utah) staff shows that the IRS spent more than $1.4 million dollars on employee travel in FY2015. The report shows that 27 IRS employees spent more than half the year on the road incurring an average travel cost of $52,800. The average length of a trip was 207 days. The report uncovered multiple incidences where luxury apartments were rented and black car services were utilized. Senate Finance Committee staff said this type of irresponsible spending needs to end. Senator Hatch has asked the IRS to respond to the report.

On Thursday federal regulators rejected the lease proposals for a copper and nickel mining project in northern Minnesota. Yesterday's decision by the Department of Interior follows a pattern of lease rejections orchestrated by the Obama Administration to block the development of resources on some federal lands. The mining project was expected to employ 850 people for up to 30 years.

Eakinomics: A Peek Behind the Regulatory Curtain

Bloomberg has a terrific story on some of the nuts and bolts of Obama's climate regulation, and how they could be re-engineered to hasten the regulations' demise. Specifically, the article covers the history of the development of estimates of the Social Cost of Carbon (SCC) in the administration. The SCC is the estimate of the dollar value of damages generated by the emission of (for example) one ton of carbon dioxide (CO_2) into the atmosphere. By definition, it is also the benefit of not emitting that ton of CO_2 and thus becomes a central element of any benefit-cost test of a climate-related regulation.

Mere reflection suggests that estimating the SCC is an ambitious undertaking. It must be built upon projections of atmospheric concentrations of greenhouse gases, temperature and other climate changes stemming from the concentrations (including regional differences),

changes in the value of marketed goods and services, and changes in the imputed valuation of non-marketed attributes like vistas of national forests, seashores and the like. it is breathtaking in scope. It also takes place over time periods measured by decades (at the minimum) or centuries, and it is this feature that is the achilles heel of point estimates of SCC. To compare costs of regulation that take place now with benefits that occur in, say, 2150, the dollars have to be put on an equal footing. This leads to the concept of a discount rate.

If the rate of return is 2 percent, then 7 cents invested now will yield $1 in 2150. Running the calculation in reverse, the discounted value of $1 in 2150 is 7 cents in 2016 when the discount rate is 2 percent. In contrast, if the rate of return is 7 percent, it requires only 0.01 cents to yield $1 in 134 years. Again, that means the discounted value of $1 is $0.0001 when the discount rate is 7 percent. Notice that at the other end of the spectrum, if the discount rate is zero, then the discounted value of $1 is also $1.

Obviously, estimates of the SCC will be extremely sensitive to choices of the discount rate; the Bloomberg article is devoted to the possibilities this offers the Trump administration. (And, no surprise, the government has four different discount rates.) But there is a larger lesson for regulatory reform. It is frequently asserted that benefit-cost analysis is too hard to do or too narrowly economic in scope. Climate regulations are often mentioned as examples because of the range of non-marketed issues. But forcing agencies to do benefit cost analyses has three repercussions. First, it must at least confront which impacts are benefits, and which are costs. This imposes important rigor and comprehensiveness.

Second, the agency is forced to at least try to identify the order of magnitude of benefits and/or costs. Taking a pass allows for mere introspection that could be greatly misleading.

Third, a benefit-cost analysis is valuable transparency. How were benefits and costs identified? How were their valuations determined? What discount rate was used in the analysis?

At present, benefit-cost analyses are an inconsistent, hit-or-miss proposition in the regulatory state. The requirements should be standardized across all agencies (Cabinet, independent, etc.) and there should be real penalties for a failure to provide a complete and transparent benefit-cost analysis.