



The Daily Dish

EPA Reconsiders Costs and Benefits

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Eakinomics: EPA Reconsiders Costs and Benefits

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Last week, the Environmental Protection Agency (EPA) started [considering](#) how to improve its “consistency and transparency” when calculating its regulations’ costs and benefits. Calculating the costs and benefits of regulations may seem straightforward, but it doesn’t take long to hit a lot of complexity.

Costs could be those directly imposed on a regulated entity in order to comply with a regulatory requirement – like the cost of purchasing, installing, and maintaining a scrubber on a smokestack. But costs could also include the possible returns on that capital if it were put to a more productive use.

The same goes for benefits. The EPA could count only the benefits accruing from the reduction of the target pollutant. Or, it could also count ancillary benefits – for example, if a regulation targeted at mercury emissions also removed particulate matter from the air.

Regardless of what one views to be the costs and benefits of regulation, the goal should be that the EPA stays consistent for every regulation it issues. Too often, the EPA has taken a broad view of benefits while narrowly estimating costs.

Take for example the [Mercury and Air Toxics Standards for Power Plants rule](#) issued in 2012. EPA estimated a range of benefits of \$36-\$90 billion, but reduction of mercury accounted for just \$4-\$6 *million* of that total. Virtually all the rest of the benefits came from reducing particulate matter. Costs of the rule were \$9.6 billion. But the estimate only looked at direct costs to complying entities. The EPA probably should have called it a particulate matter rule, except for the fact that it has an [entire other regulatory scheme aimed at that pollutant](#). So not only was the EPA drastically overstating the benefits of the mercury rule to justify the costs, but it was also likely double counting the benefits associated with a pollutant addressed in other rules.

Another example of inconsistent methodology occurred in the analysis of the [Clean Power Plan](#), where once again a minority of the calculated benefits came from the targeted pollutant. Here, the EPA used global benefits (rather than just those to the United States, contrary to guidance from the Office of Management Budget) to inflate total benefit numbers to justify direct costs of \$11.9 billion.

Fortunately, the EPA has the opportunity to standardize how it counts costs and benefits moving forward. One way it could go is to count only direct compliance costs while limiting the benefit calculation to the target pollutant. If it chooses to take a broader look at benefits, then it should broaden its cost estimates to include foreseeable costs downstream and lost economic value if that money was put to alternative uses.

The good news for proponents and critics of revising EPA’s standards is that the agency is seeking input before it proposes regulatory text. Once it receives that input, it will put together a proposal on which the public can

once again comment. Ideally, the end result will be clear standards that apply to all EPA regulations – to the extent allowed by law – and will be upheld by future administrations.