RESEARCH SUMMARY

Regulatory Impact Analysis: Solving Real Problems at a Reasonable Cost

High-quality regulatory impact analysis provides decision makers with the information they need to assess the nature and significance of a problem, identifies alternative solutions, and estimates the benefits and costs of these alternatives. While executive branch agencies such as the EPA conduct this kind of analysis, many independent regulatory agencies do not.

In "Why and How Independent Agencies Should Conduct Regulatory Impact Analysis," Jerry Ellig outlines steps independent agencies can take to remedy this problem.

- *Avoid "ready-fire-aim" rulemaking*, in which decisions are made first, and then economists are expected to produce a benefit-cost analysis that supports those decisions.
- *Ensure the independence of economists* (and other analysts) and give them incentives to conduct objective analysis. For example, have economists work in a separate office or bureau, and make sure they are not supervised by the policy staff who write the regulations that the economists will evaluate.
- *Establish agency-wide standards* for regulatory impact analysis that outline the topics that the analysis must cover and establish expectations for quality.
- *Explain how the economic analysis affected decisions* about the regulation.
- *Invite the Office of Information and Regulatory Affairs* to review the regulations and the accompanying analysis, just as it does for executive branch regulations.

Regulation requires sacrifices—there is no free lunch. As a result, reasonable people can disagree about the tradeoffs they are willing to make to get the good things regulation provides. But most should agree that the United States should not adopt a regulation unless it will solve a real problem at a reasonable cost. Regulatory impact analysis helps agencies assess whether a proposed regulation will do so or not.

Some independent agencies, such as the Securities and Exchange Commission and the Federal Communications Commission, are beginning to improve the quality of economic analysis in their regulatory decisions. Ellig's "how to" steps can help others do the same.

For more information, contact the Mercatus media team at 703-993-4930 or media@mercatus.gmu.edu