

**NEWS FROM THE FIELD**  
**SRA Economics and Benefits Analysis Specialty Group**

**RISK Newsletter, Second Quarter 2010**

As the Obama Administration moves into its second year, the Economics and Benefits Analysis Specialty Group (EBASG) continues to watch with great interest how it is addressing environmental, health, and safety risks. The pace of regulation has clearly increased. In addition, with the confirmation of Cass Sunstein as the Administrator of the Office of Information and Regulatory Affairs in the U.S. Office of Management and Budget (OMB), the Administration continues to emphasize behavioral approaches and the use of benefit-cost analysis. Most recently, both OMB's 2009 report on the benefits and costs of Federal regulations and the President's fiscal year 2011 budget proposal discussed related issues. (Links to both documents are available on the EBASG website – [www.sra.org/ebasg](http://www.sra.org/ebasg).)

OMB's *2009 Report to Congress on the Benefits and Costs of Federal Regulations* discusses recommendations for reform in three areas: considering behavioral approaches to regulation, improving regulatory impact analyses, and using these analyses to promote open government. OMB notes that social scientists have found that individuals depart from the assumptions that underlie economic theory in several respects; for example, by using mental short cuts, failing to act out of inertia, displaying more aversion to losses than to gains, and making judgments based on emotions. OMB suggests four particularly promising behaviorally-informed approaches to regulation: "...1) using [information] disclosure as a regulatory tool; 2) simplifying choices through sensible default rules and reduced complexity; 3) increasing the salience of certain factors or variables; and 4) promoting desirable social norms..."

To improve analyses of significant regulations, OMB recommends that agencies: 1) present both benefits and costs in clear, tabular form, including nonquantifiable factors; 2) conduct more retrospective analyses of regulatory impacts; 3) consider effects on future generations and the least well-off; and 4) continue efforts to address related challenges, including the treatment of factors that cannot be easily quantified or monetized. To promote open government, OMB indicates that benefit-cost analysis provides "...a public accounting of the consequences of alternative regulatory approaches [that] can increase transparency and openness, discourage ill-considered initiatives, and promote valuable innovations."

The *Analytical Perspectives* volume that accompanies the President's Budget also provides a detailed discussion of the use of benefit-cost analysis, including a summary of the information in the *2009 Report to Congress*. It notes that such analyses provide a systematic accounting framework to support continual improvement of the government's performance. As an example, it discusses the wide variation in the costs per life saved across selected rules, which suggests that more work is needed to ensure that resources are allocated as effectively as possible. In addition, it observes that benefit-cost analysis is increasingly used for Federal budgetary programs as well as for regulations, supporting both prospective and retrospective evaluation of proposed or existing programs.

We will continue tracking related initiatives and posting materials on our website. We hope that you will comment on these issues and provide information on other topics of interest by joining our discussion group, which can be accessed through the side menu on the EBASG website.

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