

HB 215 MERELY REQUIRES COST-BENEFIT THINKING:

MEANWHILE, EVEN QUANTITATIVE COST-BENEFIT **CALCULATION** IS EASY, RELIABLE, AND ROUTINELY DONE ELSEWHERE (FOR AT LEAST 100 YEARS...)

Dear Members of the Environment & Agriculture Committee,

I expect to hear claims next Tuesday on HB 215 that cost-benefit analysis (CBA) is mysterious, unreliable, hard to do, expensive, or “not ready for prime time.” DES may offer this objection. **NONE OF THIS IS REMOTELY TRUE.** CBA was “ready” in 1772, has been used routinely since 1936, and has been a required and extraordinarily useful feature of all federal rulemaking since Ronald Reagan ordered it done in 1981. *To the limited extent that CBA involves any “rocket science,” that has already been worked out.*

I have taught full-year courses on the mechanics of CBA to undergrads, medical students, and law students, but I truly appreciate the challenge of trying to summarize this information on one single page (plus three images), as you meet to discuss this very simple and much-needed bill.

History of CBA:

- See a quote from Benjamin Franklin on the next page.
- The U.S. Army Corps of Engineers “invented” CBA for project evaluation in response to requirements of the Flood Control Act of 1936, and has used CBA to approve or deny tens of thousands of projects. In a [1996 book](#), [historian Theodore Porter](#) described this law as “one of the heroic efforts of the United States Congress to control its own bad habits.”
- In 1981, President Reagan issued [Executive Order 12291](#), requiring all federal agencies to assert, with evidence and reasoning, that the benefits of any regulation justified its costs.
- There are two very large professional societies (the [Society for Benefit-Cost Analysis](#) and the [Society for Risk Analysis](#)), with thousands of experts who do CBA every day of the week; these society’s journals have produced since the 1980s more than 5,000 peer-reviewed studies that use CBA and/or improve its methods.

Basic Mechanics of CBA:

- For each kind of harm that a project might cause, we just need an estimate of (or in the case of HB 215, to need to “consider”) how “large” the harm is (e.g. acres or numbers of people affected), how likely it is to occur, and how costly each unit of harm is. The first two pieces are the province of scientists and engineers, and the third is the work of economists.
- Economists are *very* good at estimating people’s “willingness to pay” (WTP) for health or environmental improvements. In particular, there are hundreds of studies of WTP for reductions in risks of grave disease or death, which has led to a consensus “value of life” of approx. \$11 million. In other words, a project that is predicted to add a 1-in-10,000 risk of death to 100,000 people would “cost” society \$110 million, which can then be compared to the economic benefits the project would provide (in this case, jobs, cheaper trash disposal, etc.).



<https://fs.blog/benjamin-franklins-rule-for-decision-making/>

“When these difficult Cases occur, they are difficult chiefly because all the Reasons pro and con are not present to the Mind at the same time; but sometimes one Set present themselves, and at other times another, the first being out of Sight...

To get over this, my Way is, to divide half a Sheet of Paper by a Line into two Columns, writing over the one Pro, and over the other Con. Then during three or four Days Consideration I put down under the different Heads short Hints of the different Motives that at different Times occur to me for or against the Measure. ... Where I find two, one on each side, that seem equal, I strike them both out: If I find a Reason pro equal to some two Reasons con, I strike out the three. If I judge some two Reasons con equal to some three Reasons pro, I strike out the five; and thus proceeding I find at length where the Ballance lies; and if after a Day or two of farther Consideration nothing new that is of Importance occurs on either side, I come to a Determination accordingly.

And tho’ the Weight of Reasons cannot be taken with the Precision of Algebraic Quantities, yet when each is thus considered separately and comparatively, and the whole lies before me, I think I can judge better, and am less likely to take a rash Step.”

"Everybody went the same way," he said. "Everybody centered in conservative, ..."

The referendum was sponsored by the Jobs with Peace Campaign, which opposed increased military spending.

the Food and Drug Administration that it suspected the experimental drug Methyl-CCNU was causing kidney failure deaths in cancer patients.

Dr. Janet Norwood, Commissioner of Labor Statistics, testifying before Joint Economic Committee.

unemployment numbers, was in manufacturing, led by transportation equipment, lumber and wood products and electrical equipment.

at the last minute because of ... about unresolved legal matters stemming from the deaths of more than 500 members of the People's Temple.

Reagan Order on Cost-Benefit Analysis Stirs Economic and Political Debate

By PHILIP SHABECOFF
Special to The New York Times
WASHINGTON, Nov. 6 — When President Reagan signed Executive Order 12291 on Feb. 17, he transformed with a stroke of his pen what had been a useful economic tool into an imperative of Federal decision making.
The order is designed to reduce the burden that Federal regulation places on the economy. Among other things, it provides that, to the extent the law permits, "regulatory action shall not be undertaken unless the potential benefits to society from the regulation outweigh the potential costs to society."
Cost-benefit analysis has been used for some years by economists, including Government analysts, as an aid to efficient decision making. But by making the quantification of the pros and cons of Administration action a central element of policy making, the President has touched off an intense economic, political and philosophical debate.
Administration and business officials and others who applaud the President's decision say that the uniform application of cost-benefit analysis, which simply looks at the returns that come from any action in relationship to the cost, will stem the tide of unnecessary and ex-

cess application of cost-benefit analysis concede that it can unmask exceptionally rigid rules.
Several economists cited the rule that bans incorporating into consumer products elements that have been found to cause cancer in test animals. They noted that the nitrite used to cure bacon and ham fell into this category. But if nitrite was banned, they pointed out, it could lead to increased sickness or death from botulism.
Much of the debate over cost-benefit analysis is swirling around the Clean Air Act, the landmark antipollution law, which Congress is considering amending. The original law, adopted in 1970, prohibits considering costs in designing national standards for air quality to protect human health.
The law requires that the standards be set at a level that provides an adequate margin of safety, so that all sectors of the population will be protected from polluted air.
Health Standards Exempt
The Reagan Administration, in "principles" it enunciated for changing the act, has said it will not seek to subject the health standards to cost-benefit analysis. One major reason probably is



Representative Henry A. Waxman of California feels that cost-benefit analysis "will be a political tool rather than a regulatory tool."

will favor business and industry in this country rather than the public."
"It will be a political tool rather than a regulatory tool," he said.
So far, the cost-benefit requirement test ordered by Mr. Reagan has had relatively little impact on policy. One reason, according to an official of the Office of Management and Budget, which reviews all the regulatory impact statements prepared by the Federal agencies, is that there have been relatively few regulations since the Reagan Administration took office.
Only 30 Major New Regulations
"The pipeline of regulation just seems to have dried up," said the official, who, because of his office's policy, asked not to be identified by name. He noted that since the Administration took office, only 30 major new regulations had been promulgated.
In past years, the Government annually issued 100 to 200 such major regulations, which are those costing more than \$100 million to put into effect. In addition to subjecting all new regulations to cost-benefit analysis, the Reagan Administration is also using the test on 100 existing regulations.
The budget official noted that cost-

benefit analysis would always lead to the curtailment of regulation were mistaken. In many cases such analysis might show the need for stricter regulation, he asserted.
Assessment of Issues
As an example, he said that cost-benefit analysis of the clean air standards would likely show that the rules for auto emissions were unnecessarily stringent to protect human health but those for stationary sources of pollution, such as factories and power plants, were not strict enough.
But he warned that cost-benefit analysis could not simply be a "mechanistic" exercise of adding up the numbers and making a decision. "Qualitative" factors must also be considered, he said.
"I am not an economist at all,"

something that doesn't fit into numbers, like the value of clean air to our grandchildren," he said. "Cost benefit analysis discounts the future."
"It allows costs to flow to small groups and benefits to large groups and vice versa. It is concerned with efficiency but not with equity. It is deceivingly precise and ignores ethical and moral choices."
If the Federal agencies comply with the executive order, he said, "the result will be to obstruct regulations that protect health, the environment and the workplace."
System called unjust
But Jerry J. Jasinowski, senior vice president and chief economist of the National Association of Manufacturers, said that "historically, we have biased the system toward more regulation by not making any effort to estimate the benefits or overestimating them."
One of the major results of the failure, he said, is a serious decline in the nation's productivity.
Members of the manufacturers' association, Mr. Jasinowski said, would benefit "by decreased regulation where benefits of sufficient magnitude are not demonstrated."
"This would free an economic re-

TIME HISTORY • POLITICS
9 Executive Orders That Changed American History

Ronald Reagan's Executive Order 12291 (1981): This order, signed by President Reagan almost immediately upon taking office, required cost-benefit analysis to be applied to every "regulatory action" undertaken by the Federal government, signaling a **broad shift** toward deregulation.

Note: 12 issues per year for 44 years



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