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The EPA's Cost Underruns

By William K. Reilly

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The federal government recently released an extensive analysis of the economic costs of some regulations. The study concluded that the benefits of Environmental Protection Agency regulations -- benefits to both health and the economy -- significantly exceeded the economic costs of complying with those regulations. The reporting agency was the president's Office of Management and Budget, historically a skeptical watchdog accustomed to restraining the EPA's regulatory enthusiasms. And the official responsible for the study was John Graham, former Harvard professor and authority on cost-benefit analysis, whose confirmation was vigorously opposed by most Washington environmental groups.

An industry spokesman quoted in The Post responded to the report by claiming that the EPA typically underestimated the costs when proposing new regulations. That is no doubt a widely held view. It is dead wrong.

When I became EPA administrator in 1989, I had some misgivings about the agency's sophistication regarding the relationship between regulatory initiatives and their economic impact. Several of the statutes EPA administered had been authorized without much experience and over the strenuous opposition of industry. Concepts of risk-benefit analysis and regulatory economic impact studies were relatively new.

Within six months of taking office, the first Bush administration proposed a new Clean Air Act, one that promised far-reaching changes to require cleaner cars, power plants, factories and fuels. The proposal was accompanied by an extensive effort to calculate the costs of these ambitious new initiatives. EPA staffers and officials worked with the Office of Management and Budget (OMB) and the Council of Economic Advisers (CEA) to agree on the anticipated impact on the economy. Industry's future costs to implement the new acid rain controls were among the most hotly disputed matters. The electric power industry estimated that eliminating one ton of sulfur dioxide (the bill aimed to eliminate 10 million tons) would cost more than \$1,300. The EPA, CEA and OMB ultimately agreed on a cost estimate of \$600 to \$800 per ton. We got it wrong: Over the ensuing decade the cost proved to be less than \$200 per ton.

In fact, a review of some of the major regulatory initiatives overseen by the EPA since its creation in 1970 reveals a pattern of consistent, often substantial overestimates of their economic costs. Catalytic converters on cars, the phaseout of lead in gasoline, the costs of acid rain controls -- on each of these, overly cautious economic analysts at the EPA advocated proposals they considered important but projected high-end costs that undercut the acceptance of, and heightened the opposition to, their initiatives. In fact, the OMB report makes clear that the weakness in analyzing the likely impact of new environmental rules lay in a highly conservative calculation of benefits. Where the costs of four major EPA rules in the 1990s were \$8 billion to \$8.8 billion, the benefits are now calculated to have been between \$101 billion and \$119 billion.

It seems to me it's time that the EPA's critics acknowledged the care and sensitivity to costs, the overly conservative approach to benefits, that have historically characterized the agency's work. The explanation for the large variation between anticipated and realized costs of regulation lies in the difficulty in foreseeing what new technologies, inventions or replacement strategies challenged

companies will develop to comply with new requirements. The agency has not assumed technological breakthroughs but acquitted itself cautiously in integrating the protection of health and the environment with concern for the economy. It has resisted the temptation to play down costs. And it has been directly responsible for fostering new technologies and promoting the genuine integration of the nation's environmental aspirations with its economic goals.

The writer Gregg Easterbrook, in his book "A Moment on the Earth," identified environmental improvement, along with Social Security, as one of the two foremost achievements of American public policy in the post-World War II period. Industry has contributed greatly to this success with its ingenuity, invention and real dollars. The OMB report suggests to me that regulated businesses need to recognize that the nation's environmental progress has achieved greater benefits than we anticipated and earned a solid return on our investments. We should all take more pride in what we have accomplished.

As Congress and the administration craft the nation's energy and environmental policies, they would do well to heed the findings of this report. The health of our people, the productivity of the natural systems on which we depend and the future prosperity of our nation depend on it.

The writer was administrator of the U.S. Environmental Protection Agency from 1989 to 1993. He is now board chairman of the World Wildlife Fund and chief executive officer of Aqua International Partners, a private equity investment fund dedicated to the water industry.

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