

Regulation and the Economy

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My topic today is regulation and the economy. I approach this topic with a dose of humility because the ability of policymakers in Washington to influence economic developments is often overstated. Insofar as public policy does influence the economy, the most potent instruments may be the levers of monetary and fiscal policy. The impacts of regulation may be less apparent but they can be important. Taken as a whole, the annual cost of Federal regulation may be comparable to discretionary spending. I believe that a smarter regulatory system – and the climate it creates for consumers and investors – does have a modest yet important role to play in facilitating stronger economic performance.

Let me emphasize that a smart regulatory system is not uniformly pro-regulation or anti-regulation. At OMB, we are expanding our expertise in science, engineering, and economics in order to do a better job of distinguishing good rules from bad rules. And although our office is not always popular with agency regulators, we have demonstrated our determination to return to agencies rulemaking proposals that are not supported by quality data and analysis. At the same time, we have approved and even encouraged new regulations where they are warranted.

In order to explain the Bush Administration's agenda of smarter regulation, I will offer two kinds of illustrations. First, I shall summarize recent rulemaking initiatives in major sectors of the economy that achieve important national objectives. Second, I shall highlight some of the broader process reforms we have initiated in order to enhance the

overall quality of data and analysis supporting regulatory decisions. My remarks shall be brief and I look forward to your questions, comments, and suggestions.

1. **Homeland Security**

About 60 new federal regulations have been adopted in the last year to enhance homeland security. Some of these rules were designed to provide economic assistance to businesses and regions of the country that were harmed by the terrorist attacks and their aftermath. Other rules – including those aimed at immigration control and airline safety – contribute to our homeland security for the years ahead. However, we recognize that new pathways of terrorism are likely and we need to find effective ways to counteract these threats. Over the next year, more homeland security rules will be adopted, regardless of precisely when the new Department of Homeland Security is created. These rules should help instill confidence in our security and our economic stability, and we will certainly work hard to make sure that these rules are cost-effective.

2. **Corporate Financial Disclosures**

The recent financial misdeeds of Enron and other companies have revealed some holes in our nation's systems of disclosing the financial performance of companies. Although the SEC has the lead on these issues, we at OMB are working hard to make sure that companies operating outside the jurisdiction of the SEC are subject to appropriate disclosure requirements. For example, we are working with OFHEO, the regulator of Fannie Mae and Freddie Mac, to make sure that these large, Federally chartered and taxpayer-supported firms in the home mortgage industry are subject to

appropriate disclosure requirements. OMB has been encouraged by the cooperative, proactive postures that Fannie Mae and Freddie Mac have taken in response to our initiative. These rules should help increase the transparency and investor confidence that are important to a well-functioning market.

3. **Mortgage Transactions**

The rules governing the process of obtaining a mortgage are being updated by HUD for the first time in decades. The objectives of reform seek to provide the borrower with clear and complete information about how mortgage brokers are compensated, to clarify for consumers what costs will be incurred at settlement, and to help borrowers shop for the best mortgages and packages of settlement services. We believe that properly crafted rules in this area can produce cost savings for consumers while increasing public confidence in the mortgage industry. In the months ahead, we will be working with HUD to refine these rules in light of the public comments that are received.

4. **Food Safety and Nutrition**

The safety of the nation's food supply is a priority among regulators at both USDA and FDA. Unlike the European food system, which seems to have lost some public confidence on safety matters, the food system in the United States continues to be highly regarded.

In order to sustain this reputation, we have been working with USDA and FDA in the development of rules to prevent BSE from entering commerce in the United States. As you know, BSE is the chronic, degenerative neurological disorder of cattle that was first diagnosed in the UK in 1996 and has been the source of significant safety concerns throughout Europe. Proactive and preventive rules should help avoid the harm and disruption experienced in Europe and will permit a swift regulatory response if BSE is detected in the United States.

In the arena of food labeling and nutrition, we are working with FDA on a final rule to inform consumers about the trans-fatty acid content of foods. Trans-fats are now recognized as a major dietary risk factor for coronary heart disease. The label on trans-fats will permit consumers to shop for safer foods while encouraging food processors to take steps to reduce the trans-fat content of their products.

The BSE and trans-fat rulemakings are just two examples of a series of Administration efforts to enhance food safety and nutrition. The analytic tools of risk assessment and cost-benefit analysis are being deployed to make sure these rules are as cost-effective as possible.

5. **Quality of Medical Care**

In a 1999 report prepared by the Institute of Medicine, medical errors were

identified as a widespread problem in hospitals throughout the United States. Experts believe that recent innovations in industrial risk management also offer promise in reducing the rate of medical errors in health care. The Department of Health and Human Services is developing a series of rules to stimulate quality improvements in health care. For example, a final rule we are currently reviewing develops and implements a quality assessment and performance improvement plan as a condition of hospitals participating in the Medicare program. The rule will establish standards for tracking adverse medical events and their causes and will stimulate adoption of prevention programs. We are working with HHS to evaluate the benefits and burdens caused by these rules and explore less burdensome alternative that accomplish patient-safety objectives.

These five specific areas of rulemaking activity are by no means exhaustive. In this fall's formal Regulatory Plan, which will be published soon, each federal agency summarizes the major rulemakings to be initiated in the next year. The public can also monitor our regulatory reviews by accessing the data on our web site. Each day, OMB updates the rules that have been cleared by OMB and the new rules that have been submitted to OMB for review. We even disclose basic information about which outside groups have lobbied us in specific rulemakings.

Process Reforms

In addition to technical reviews of specific rules, my office has also initiated several government-wide process reforms aimed at enhancing the quality of regulatory

information and decisions. Progress on these reforms is reported each year in our Annual Report to Congress on the Costs and Benefits of Regulation.

The next Report to Congress, scheduled for publication before the end of the calendar year, will describe two government-wide reforms. First, OMB has established government-wide guidelines concerning the quality of information that agencies disseminate to the public. For the first time, Federal agencies are providing the public an explicit opportunity to challenge the quality of agency information and seek administrative corrections in a timely manner. This new Information Quality Law took effect October 1st of this year and we are at the initial stages of a long-term improvement in the information-quality procedures at agencies.

Second, in March of this year, OMB requested public nominations of specific rules, paperwork burdens and guidance documents that need to be reformed. We received over 300 reform nominations covering 25 federal agencies. We are now designing a systematic process for agency consideration of these nominations. This process will also be presented in our forthcoming Report to Congress.

In summary, the Bush Administration is pursuing an agenda of smarter regulation based on formal analysis and public transparency. Centralized oversight of this agenda is exercised by my office at OMB, a small but seasoned cadre of 55 professional analysts with expertise in science, engineering, economics and policy analysis.

We recognize that it is difficult to link smarter regulation to specific changes in economic indicators such as inflation and unemployment. However, we believe this Administration's analytic approach to regulation is establishing an improved climate for market decisions – a climate that facilitates and rewards more informed decisions by consumers and investors. We see a competitive free enterprise system, organized with smart regulations, as the most promising way to achieve efficiency and fairness in economic decisions.

Thank you very much for the opportunity to speak today.