



John Graham
02/11/2003 06:38:45 PM

Record Type: Record

To: John F. Morrall III/OMB/EOP@EOP, Arthur G. Fraas/OMB/EOP@EOP
cc:
Subject: Comments on BCA report

John and Art:

I asked Lester to submit formal comments for the public record. Here are his informal, initial impressions.
----- Forwarded by John Graham/OMB/EOP on 02/11/2003 06:33 PM -----



Lester Lave <ll01@andrew.cmu.edu>
02/06/2003 09:33:58 AM

Record Type: Record

To: John Graham/OMB/EOP@EOP
cc:
Subject: Comments on BCA report

Dear John,

The draft is a good one. I suggest a preamble: "Budget pressures mean that government expenditures and regulations that impose costs on the economy must be examined more carefully in order to discover how to produce the benefits more cost-effectively, to find regulations that should be made more stringent, and regulations that should be eliminated. OMB understands that the benefit-cost analyses reported here do not capture all of the reasons for doing a program. In particular, they tend to neglect income transfers, which are the goals of some programs. Nonetheless, OMB believes that this quantification of benefits and costs will help to inform the public and aid program managers and Congress in transforming these programs to achieve their goals more cheaply and increase the net-benefits of each program."

Disaggregating the benefits a bit is helpful. This report does not explain the source of the estimation. In previous years, relying almost entirely on the Hahn estimates was problematic. I don't quarrel with Bob's scholarship, but relying on a nongovernmental source for most estimates is a problem. I don't have great confidence in any of the estimated benefits or costs, but the numbers are helpful.

The requirement for CE makes sense. In my judgment, requiring a pdf for uncertainty does not. A Bayesian tool like a probabilistic uncertainty

analysis is good for the individual whose pdf is used. But this is not so helpful for a public analysis. Why should I have confidence that the pdf that you used represents my judgment or reflects the best judgments of the experts? For an analysis involving billions of dollars, it is hard to see that experts would be entirely candid and honest. For example, what do you think a pdf of the dose-response relationship for smoking would be like? My guess is that the tobacco industry and anti smoking groups would make a fuss and scientists would tend to become more extreme in their beliefs. Play that out for global warming or one of the important pesticides or for asbestos. Granger was able to elicit expert opinion because there was nothing except the regard of your colleague at stake. That is not true for smoking, atmospheric warming, asbestos, etc. I recommend removing this requirement.

I like providing externality values for pollution emissions. The more specific you can be, the more likely you are to get agency compliance. The primer at the back is especially helpful.

You need to make your case with the agencies and Congress that BCAs are helpful. Judging from past experience, no president is going to stamp his foot to force agencies to produce BCAs and have the BCAs influence decision-making. Thus, you need to convince Congress and the agencies to be a bit better than they have been.

In conclusion, you have done well with the cards you were dealt. But, please bow gracefully and eliminate the probabilistic risk requirement. I will be in DC on Feb 27 for Meltzer's AEI gala. Do you have any time to chat then?

Lester