

# Memoranda for Members of the Regulatory Working Group -- Economic Analysis of Federal Regulations Under Executive Order No. 12866

January 11, 1996

## MEMORANDUM FOR MEMBERS OF THE REGULATORY WORKING GROUP

**FROM:** Sally Katzen

**SUBJECT:** Economic Analysis of Federal Regulations Under [Executive Order No. 12866](#)

Over two years ago, a subgroup of the Regulatory Working Group started work on a document to provide agencies with a state-of-the-art discussion of the economic analysis required by Executive Order No. 12866. Attached is a copy of the results of that effort. It replaces the "Regulatory Impact Analysis Guidance" last published in Appendix V of the Regulatory Program of the United States Government, April 1, 1992-March 31, 1993.

"Economic Analysis of Federal Regulations" was drafted by an RWG interagency working group chaired by Joe Stiglitz of CEA and then-General Counsel of the Department of Transportation, Steve Kaplan. This document represents the results of an exhaustive two-year effort by the group to describe "best practices" for preparing the economic analysis of a significant regulatory action called for by E.O. 12866. It is designed to help agencies meet the analytic requirements of E.O. 12866, as well as those of the Unfunded Mandates Reform Act of 1995 and the Regulatory Flexibility Act.

As is pointed out in its introduction, the document "is not in the form of a mechanistic blueprint, for a good EA [economic analysis] cannot be written according to a formula." Furthermore, it acknowledges that "the amount of analysis (whether scientific, statistical, or economic) that a particular issue requires depends on the need for more thorough analysis because of the importance and complexity of the issue, the need for expedition, the nature of the statutory language and the extent of statutory discretion, and the sensitivity of net benefits to the choice of regulatory alternatives." Clearly, good data and good analysis are critical to inform sound decisionmaking, and over the years the federal government has increasingly used such analysis to improve the regulatory system. The document covers three important elements of regulatory economic analysis: the statement of need for the proposed action; the examination of alternative approaches; and, the analysis of benefits and costs.

We appreciate the assistance you and your staff have provided, and believe that the result of this effort will be helpful in your development of new regulations and ongoing evaluation of your current regulatory programs.