Since 1981, federal executive agencies have assessed the costs and benefits of proposed Federal regulations under various Presidents’ Executive Orders. Dating to President Reagan’s Executive Order, the requirement for benefit-cost analysis and coordinated White House review does not extend to independent regulatory agencies such as the Securities and Exchange Commission, the Commodity Futures Trade Commission, and the Federal Reserve. These agencies are responsible for implementing many aspects of the Dodd-Frank Wall Street Reform and Consumer Protection Act. A Regulatory Policy Program event held on April 5, 2012, explored the state of, and identified ways to improve, the analysis by these independent regulatory agencies.

This event, “On the Quality of Economic Analysis at Independent Financial Regulatory Agencies,” featured Randall Lutter, Visiting Scholar at Resources for the Future, former Deputy Commissioner for Policy at the Food and Drug Administration, and a former economist at the OMB Office of Information and Regulatory Affairs.

Perhaps because these independent regulatory agencies are not technically required to undertake formal cost-benefit analyses, their reviews tend to be cursory, according to Lutter. In fiscal year 2011, the Office of Management and Budget has classified fifteen independent agency rules as “major,” suggesting they would have economic impacts (benefits and/or costs) in excess of $100 million per year. Only five of these rules have quantitative estimates of costs, none have quantitative estimates of benefits, and only ten include any kind of discussion of costs and benefits. In contrast, in fiscal year 2010, 33 of the 34 major rules issued by executive branch agencies addressed costs and benefits, 26 of 34 had qualitative cost estimates, and 20 of 34 had quantitative benefits estimates.

Lutter suggests that independent regulatory agencies could analyze the costs and benefits of some of the Dodd-Frank rules. Office of Management and Budget review of these rules may serve to elevate the quality of their benefit-cost analyses. It could also inform regulatory design by highlighting more effective and lower cost ways to achieve the goals established under the Dodd-Frank Act. Lutter recommends drawing from the academic literature to identify ways to quantify the benefits and costs of financial regulatory reform.

The seminar was part of a series sponsored this spring by the Regulatory Policy Program (RPP) at the Mossavar-Rahmani Center for Business and Government on the role of cost benefit analysis in regulatory policy and new directions in financial regulation. For information, go to: http://www.hks.harvard.edu/m-rcbg/rpp/index.html