

EPA's Guidelines for Preparing Economic Analyses

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Background

- **Goal of the *Guidelines***: to establish a sound scientific framework for performing economic analyses of environmental regulations and policies.
- Document builds on:
 - *Guidelines for Performing Regulatory Impact Analysis* (1983) and
 - *Guidelines for Preparing Economic Analyses* (2000).
- EPA committed to periodically revise the *Guidelines* to account for further growth and development of economic tools and practices.

Scope of the *Guidelines*

- Focuses on economic analysis conducted to support environmental policy decisions and to meet requirements described by related statutes, executive orders and guidance materials.
 - Other guidance documents exist for related analyses.
 - No attempt is made to summarize the other guidance documents, but appropriate references are included.
- Assumes the reader has some background in microeconomics as applied to environmental and natural resource policies.
- Designed to provide assistance to analysts conducting analyses, but does not provide a rigid blueprint or “cookbook.”

What's New?

- The revised *Guidelines*
 - Incorporates new literature published since the last revision.
 - Describes new Executive Orders and recent guidance documents (e.g., OMB's Circular A-4) that impose new requirements on analysts.
 - Fills information gaps by providing more expansive information on selected topics.
- Text boxes have been incorporated to highlight emerging issues.
- Document will be released electronically and in loose-leaf format to facilitate future, more targeted revisions.

Chapter by Chapter Improvements

- **Chapter 2: Statutory and Executive Order Requirements for Conducting Economic Analyses and Chapter 3: Statement of Need for Policy Action**
 - Updated to include new executive orders and requirements.
- **Chapter 4: Regulatory and Non-regulatory Approaches to Pollution Control**
 - Retains the general structure used in the previous version, but has been extensively rewritten and expanded.
- **Chapter 5: Establishing a Baseline**
 - Baseline specification discussion has been expanded and updated.
 - Other topics included in 2000 *Guidelines* have been relegated to other sections or are under development for future chapters.

Chapter by Chapter Improvements (cont.)

- **Chapter 6: Social Discounting**

- Discussion of conventional discounting focuses more clearly on the shadow price of capital approach and capital displacement.
- Guidance on intergenerational discounting more clearly presents the Ramsey Framework and reflects more recent literature on uncertainty.
- Discounting of non-monetized effects has been removed but will be covered in a separate chapter on cost effectiveness analysis currently under development.

- **Chapter 7: Analyzing Benefits**

- Descriptions of valuation methodologies have been clarified and largely separated from discussions of specific endpoints.
- Stated preference section has been expanded.
- New section on accommodating non-monetized benefits has been added.
- Details on the derivation of the Agency's default values for mortality risk valuation now relegated to Appendix B to facilitate future improvements.

Chapter by Chapter Improvements (cont.)

- **Chapter 8: Analyzing Costs**
 - Extensively rewritten to focus on social costs: Extensively rewritten to focus on social costs as defined and used in EPA's RIAs.
 - Includes new theory section on social cost estimation under both partial and general equilibrium frameworks.
 - Concludes with fuller description of the strengths and limitations of alternative models.
- **Chapter 9: Distributional Analyses: Economic Impact Analyses and Equity Assessments**
 - Chapter still organized according to type of analysis.
 - Information has been condensed and reorganized within sections, drawing greater distinction between the various kinds of analysis.
 - Two sections have been added on the modeling or framework used for each analysis, pulling information originally presented elsewhere in the chapter.

Chapter by Chapter Improvements (cont.)

- **Chapter 10: Presentation of Analysis and Results**
 - Updated to include new reporting requirements.
 - Includes new section on general issues encountered when reporting results.
- **Appendix A: Economic Framework (NEW)**
 - Provides a technical discussion of economic concepts mentioned throughout the chapters of the main document.
 - Allows a more thorough discussion of some topics and helps avoid redundancy as readers are referred to the Appendix for more information rather than having topics discussed in multiple places throughout the document.
- **Appendix B: Mortality Risk Valuation (NEW)**
 - Summarizes the derivation of EPA's mortality risk valuation estimates.
 - Location in appendix will facilitate future updates on this topic.

Additional *Guidelines*

Changes/Projects on the Horizon

- **Mortality Risk Valuation (Spring 2009):** Review of whitepaper providing updated mortality risk valuation estimates.
- **Discounting (Spring 2009):** Review of whitepaper on Capital Supply Elasticity and the Shadow Price of Capital.
- **New Chapter on Cost Effectiveness Analysis (Spring 2009)**
- **New Chapter on Uncertainty Analysis (Spring 2010)**