Marcus Peacock, currently serving as special advisor to US Office of Management and Budget Director Mick Mulvaney, appeared at RFF to discuss President Trump’s recent executive orders on regulatory policy. What follows is a transcript of the event held at RFF on April 5, 2017. It has been lightly edited for readability and will not sync exactly with the video recording.

Richard Newell: Good morning. I'm really pleased to have you here at Resources for the Future. I'm Richard Newell. I'm the president of RFF. We're really pleased to have Marcus Peacock here with us today to discuss recent developments in US regulatory policy. Most of you are familiar with RFF, but for those of you who aren't, we're a non-partisan research organization that provides independent, non-partisan economic analysis of environmental energy and natural resource issues. At RFF, we've had a long-standing interest in regulatory policy and analysis and in benefit cost analysis in particular.

Over the past 30 years, it's notable the extent to which various administrations in the United States government from both parties have embraced across the political spectrum benefit cost analysis as an important way to evaluate and help make sure that government regulations are the right regulations, that they're cost effective, that they're delivering a net value to society. This goes back to the early 1980s with an executive order by Ronald Regan. It was continued in the George H.W. Bush administration, reinforced by the Bill Clinton administration, the George W. Bush administration, and the Obama administration.

And so there's a long history across the political spectrum for support for benefit cost analysis. Most recently, President Trump has signed two orders related to regulatory analysis that do a number of things, first fulfilling a campaign promise or pledge to implement a two-for-one tradeoff, where every new regulation would be compensated for by the removal of two existing regulations and also introducing the concept of a regulatory budget. There's been considerable attention to these executive
orders and what they mean for the future of US regulatory policy, and a key aspect of that being environmental regulatory policy.

[0:02:00] We're very fortunate therefore to have with us today Marcus Peacock to shed some light on the issue. Marcus is a distinguished research professor at George Washington University's regulatory studies center. And he's currently serving temporarily as a senior advisor to US Office of Management and Budget Director Mick Mulvaney. Of particular relevance to today's discussion is that he's written extensively on regulatory policy, including on regulatory budgets and a two-for-one regulatory requirement. Marcus has a long career in public service and has held a number of posts in the federal executive branch, including deputy administrator of the US Environmental Protection Agency and also associate director at the Office of Management and Budget.

In addition, he's worked on the Hill and in private and non-profit sectors. So he brings a range of experience to these very important issues. Marcus will be discussing these issues with two RFF fellows, Dick Morgenstern and Art Fraas, who are also up at the podium here, themselves who are distinguished experts in regulatory policy. Dick Morgenstern served for many years at the Environmental Protection Agency in a variety of capacities involving policy. And he's produced a rich body of research on regulatory practice at RFF.

If you follow US environmental regulation, you're also no doubt familiar with Art Fraas. Art joined RFF in 2009, after spending 21 years at the Office of Information Regulatory Affairs at the Office of Management and Budget as chief of the natural resources, energy, and agricultural branch at OIRA. So as an aside, Art and Dick have co-authored an article with their RFF colleague, Maureen Cropper, that came out just this week in Science Magazine that emphasizes the need for increased retrospective evaluation of regulatory requirements and best practices for carrying out retrospective evaluation, including adding requirements to new rules that would facilitate their subsequent evaluation,

[0:04:00] including both the benefits and the costs of regulation as they are actually experienced. Just some logistical notes before we get started. This is the first event we're holding, actually, on regulatory analysis in the Trump administration. We're planning several more, including one in May. We'll announce that event publicly once we've nailed down the participants and the date. So keep an eye out for that. You'll receive an invitation.
You'll also notice that at your table are some cards for you to submit questions. We'll have staff collecting these during the discussion. And we'll try to get to as many of those during the Q&A as possible during that period. Also, those of you who are online, please—you can submit your questions via Twitter using #askRFF. Art, I'm going to be sitting down now. And Art and Dick Morgenstern will be conducting the Q&A after some remarks by Marcus. So let's please welcome Marcus Peacock to RFF.

[Marcus Peacock:]

Marcus Peacock: Thank you very much.

[Art Fraas:]

Art Fraas: Marcus and I were colleagues and friends at OMB starting many years ago. I stayed at OMB, and Marcus has gone on to a distinguished career in government service. So Marcus, we really appreciate your willingness to join us today for this discussion. I owe you at least two for one.

[Laughter]

And the format for our discussion is Dick and I are going to form a tag team, and I get to start out. As Richard indicated, the president has signed two significant executive orders affecting regulatory policy. They launch a regulatory budget and two-for-one offset for any new regulation.

[0:06:00]

For many people, they appear to represent a significant change from prior practice. And there have been some concerns that they represent a focus on deregulation without consideration of regulatory benefits. So let me start out by asking what you think are the most important elements of these new orders. What is the administration hoping to accomplish with them? And how do you think they might play out in practice?

[Marcus Peacock:]

Marcus Peacock: Well, thank you, Art. And thank you, Richard, for your introduction. I tell you; just first of all, I'm so pleased to be with both of you gentlemen. Of course, Art and I work together quite closely. But I did review EPA rules while at OMB, and Dick Morgenstern is well known among the folks who are familiar with EPA. I sort of feel like I'm maybe set up to defend my dissertation today with these two.

[Laughter]
But, so let me step back and talk about what, I think, the president is trying to accomplish with the one in, two out executive order, Executive Order 13771. And that may help people focus on what's intended. And then if people see that perhaps the words don't match the intention, we can talk about that, as well. But—and then that will get to your question regarding particularly the role of benefits. So the government policy is achieved by redirecting resources.

And particularly at a place like RFF, resources don't just mean money. They mean time. They mean effort. They can mean capital, stock. They can mean all kinds of things. So government redirects resources in a number of ways.

Right now there's a lot of discussion regarding the budget that came out recently. And another dose of it will come out soon. The first part that came out is discretionary spending. And so if we think about government having—wanting to, for instance, protect and enhance wetlands, as part of what it's trying to achieve, there is a program at the Department of Interior which provides grants to people who want to protect and enhance wetlands. The so-called _____ grants are funded through discretionary spending.

But there's a limit on how much can be spent under the _____ program. So for instance, discretionary spending, there's a cap on discretionary spending. And the _____ program, the appropriation for the spending of these grants is controlled through that. There are also ways that the government helps protect and enhance wetlands through mandatory spending. This is like entitlement spending.

So for instance, there's a farmable wetlands program. I think that's what it's called. I know there's someone from USDA here. But the farmable wetlands program, if you are a farmer, and you have wetlands on your property that you're allowed to farm, you can actually go to a USDA office and sign a contract with them, where they will pay you not to farm that property. Now, that's not something that's appropriate in every year. Farmers are eligible to do that. The only limitation, which is in the farm bill, is that it's no more than 100,000 acres per state can be set aside. And no more than ten acres per owner, per piece of property can be set aside.

So that's another way that the government redirects resources. This is through mandatory spending. We also use the tax code. We either tax things, or we provide what are called tax expenditures or
tax breaks. And we do that for wetlands. If you're a land owner, maybe not a farmer,

or even if you are a farmer and you don't want to go through the hassle of the farmable wetland program, you can spend your own money to protect a wetland or enhance a wetland on your property. And you can expense that as a deduction against your taxes. That's called a tax expenditure. Some people call it spending through the tax code. But that is limited, as well. The expenses can't be any more than 25 percent of your gross income.

And of course, authorizing committees, whether it's on the tax code or mandatory spending, they can further change the law and limit those things or eliminate them or expand them. So we've talked about discretionary spending, mandatory spending, tax code. There is, of course, a fourth way in which the government can redirect resources, and that's through regulation. And that is by telling people to change their behavior or redirect resources.

And of course, we do this with wetlands, for instance, through the so-called Section 404 Program, where if you want—if you intend to disturb a wetland, you have to go get a permit. And the permit requirements may mean that you have to do some things before you can do something with that property. Or it may preclude you from doing something with that property in order to protect wetlands. There is, however, no cap on or control on the amount that you have to spend, other than perhaps some executive order requirements and then of course the legal boundaries in which in this instance the Corps of Engineers and the Environmental Protection Agency have the discretion to protect wetlands.

So unlike the other three areas, which perhaps are limited to the extent which the costs or the amount of spending is managed, there is very little management of costs when it comes to managing what is spent for regulatory requirements. This is not a new observation. This is a concern that people have had going back at least to the 1970s. Jimmy Carter—

I'm not sure he literally proposed, but he certainly considered some requirements that looked at the burden that regulations put on society and the cost of regulations. Lloyd Benson, when he was in Congress, put forward legislation. And every president since then, as well as members of Congress, have proposed ways in which to manage the costs of regulations so that it's more like managing the spending by the federal government in order to get public goods. So in many ways, this executive order is an attempt to take that the
next step and to take a look at a way to manage the costs of regulation.

There is another aspect of this, though, which we'll talk about. And it comes with regarding the role of benefits. And I'll say this. There's no intention with this executive order to diminish the role of benefits in making regulatory decisions. It does not affect Executive Order 12866. In fact, the other executive order we'll probably talk about is the enforcing regulatory reform executive order, which is 13777, the Dreamliner executive order, as I like to call it.

One of the elements which we try to emphasize in that executive order is that agencies have to continue to make sure that they comply with other important regulatory reform executive orders, including 12866, which requires that we maximize debt benefits. But there is another element, which presidents, once again, going back for a long time, and particularly President Obama, I think, made attempts at this. And that is we now have a stock of regulation sitting on the shelves which has not been looked at for a long period of time. When those regulations were issues, either there was no requirement to look at the costs and benefits, or it was a long time ago that there was an attempt to project the costs and benefits. But no one's ever gone back to look at just how effective or efficient they are. And so the notion is that there should be some governmental resources, particularly among the regulatory agencies, to go back and look at the existing stock of regulation and continue to go through it and look for ways to make it more efficient, and particularly to reduce burden, but also see whether or not we could maximize debt benefits. And one of the things that requiring every one rule coming in to have two deregulatory actions linked to it, it now sets up a mechanism or a tool, a rule that requires agencies to go back and look at their existing stock of regulation.

The attempts to do this in the past, once again, going back to at least Jimmy Carter—section five of 12866, actually, requires elements of retrospective review. They've not been terribly successful. And so this is an attempt to change the incentives of agencies to make sure that they're taking regulations off the shelf that they suspect may not be terribly effective. They may be unnecessary, and there may be great opportunities for improving them. They may want to determine if in fact they're achieving the benefits that we expected them to achieve.
And take a look at that. And if they can be improved, make sure they're improved. And so it provides the incentive to do that. Now, what I would like to do, just so everybody understands what this executive order does, is maybe do a little role play. Take five minutes, if we could, and we'll show people how this works. Can we do that? So let's say, Art, let's say you're a new rule coming in.

[Laughter]

You're a new rule coming in. Is that right? Do you feel the newness?

[0:16:00]

Art Fraas: I feel the power.

Marcus Peacock: Yeah, okay. So this executive order only affects certain new rules coming in. And so Art, if you could hold that up. So first of all, Art has to be satisfying a statutory need or objective or a compelling need. This is one of the requirements of Executive Order 12866, the statute essentially has to allow the agency to issue him. That's a basic thing. But notice he also has to maximize net benefits. He has to go through a 12866 review.

And that's because we are only counting the ins in this executive order as significant regulatory actions. So if you go to Executive Order 12866, you go to section 3F, it'll define significant regulatory actions for you. So if it's a rule, it's a new rule, and it's not a significant regulatory action, it's not covered by 13771. So he's meeting a statutory objective. He's maximizing net benefits. Oh, I got ahead of myself.

So this is the other one you have to hold up, Art. So you have to be—

Art Fraas: You know I have two hands.

Marcus Peacock: Yeah, well, that's—I only got two things for you to hold up. It's good exercise. So he has to be a significant regulatory action. And then finally, there has to be an increase in costs. So on the cost and benefits side—there's two sides of the ledger—there have to be costs that he's incurring on whoever is being regulated. So if you meet all those standards, then you're an in, Art. And you have to be offset. You can rest your arms now, if you'd like.
So that means there are a lot of regulatory actions that would not be counted as an in. But Art would under this situation. So what do we need for the outs? What do we need in order to offset Art? Any guesses from the—

[0:18:00] What's that?

Audience: Get rid of Dick. Make him an out.

[Laughter]

Marcus Peacock: Well, we are in fact going to make Dick an out.

[Laughter]

Well, so Dick to be an out—yeah. I'm only going to do one thing. He has to be a regulatory action which decreases costs on the cost side. So he has to be a saver. But now, is Dick sufficient to offset Art?

Richard Morgenstern: More than sufficient.

[Laughter]

Marcus Peacock: I've—biting my tongue. Well, one way Dick is not sufficient is one of the hoops we have to go through is there have to be two deregulatory actions, right? And Dick is only one. So Sidney, can you come up here? I'm calling out Sidney. So we're going to have Sidney be another deregulatory action. Now, notice that I've inserted on these that 12866 applies to both Dick and Sidney. If they're a regulatory action which is covered under 12866, they still have to go through review.

They still have to maximize net benefits. But here's a surprise for you. They may not even be a regulation covered under 12866. Deregulatory action is defined quite broadly. It can include, for instance, changing of paperwork, reducing costs, or changing a guidance. If there is a reduction, a certifiable, a verifiable cost reduction, they are deregulatory activities. So we have two deregulatory activities. Art is the one coming in.

But let's say Art costs $100 million a year. Just pulling a number out of the air. And Dick is going to save $50 million. And Sidney saves $45 million. Do we have sufficient offset? We've got the two regulatory actions, but the other thing the executive order requires is that the costs be offset. So we come up $5 million short. So I
won't pick anybody else out. But we would need yet another deregulatory activity

that would make up for at least the remaining $5 million a year so that we've offset Art. Thank you. Thank you, Dick. So that's how this is intended to work. And I've left obviously some details out. But the notion is that—so in answer to your question regarding benefits, Art, 12866 remains in place. It's an important—I would still call it the keystone for environmental, for regulatory review. But what this does, it sets up a rule regarding new rules that we think is going to, first of all, help manage the costs of rules, and secondly, will encourage retrospective review of rules, as well as other actions.

I want to add one last thing. And that is, particularly early on here, this may look like a difficult thing to do. There are other countries who have implemented similar policies. Canada on the UK are often held up as the best examples. And they do have the programs that have been used the longest. I think Canadians started in 2005, and then the UK has had a system since 2011.

In Canada, they count as cost what is essentially administrative burden, what we would think of as—under the Paperwork Production Act as administrative burden. And they've found that it's easier than they thought to find cost reductions. The UK uses direct compliance costs to business as what they offset, which is broader than administrative burden. So if you have to purchase a scrubber, for instance, for your manufacturing plant or your coal plant, that would be a cost that they would consider. So they look at direct compliance costs.

They started with a one-for-one. They found it easier to offset costs than they expected. They went to one-for-two. They now have one-for-three. But they are finding that most of their savings are also coming from reduction in administrative costs, similar to what Canada's measuring.

So it tends to be paperwork costs or administrative costs. I think—I'm guessing—we're going to find something similar. And a lot of the deregulatory actions that people will focus on first are those that simply make it easier for people to fill out paperwork or just fill out less paperwork, probably. And those are going to be the savings that we see. There's also an advantage in that it's a lot easier to do that than some of the other deregulatory actions people may think about.
That's just a guess on my part based on the examples of those two. There's been a program in the Netherlands, which does not have a rule, doesn't have a one in, two out. But they have twice now I think set goals for decreasing regulatory burden. And they were able to do it twice. Because I think the first time they found it rather easy to do. And once again, most of the savings they'd found were administrative burden. Well, there's my long introduction.

But it hopefully gives you a sense of what the purpose and the objectives of the executive order are. Did I answer your question?

*Art Fraas:* Well, I guess I'd like to pick up—I don't know the European programs as well as I should. I've understood that in the UK most of the cost savings came from applying a back tax of five cents. And they took that cost saving and are claiming that as basically offsetting cost. So I'm not sure how well that program is actually accomplishing the objective.

*Marcus Peacock:* I'm not aware of that. So the UK has an annual report, and they list all the outs.

[0:24:00] I'm not familiar with—are you saying the revenue from the back tax is used as an offset?

*Art Fraas:* Yeah. That's apparently so.

*Marcus Peacock:* Okay. Well, someone can find that fact. So that would be interesting to know. I know the last report I read—the lists do not tend to be long. They're less than a page. But there are a number of items, and it probably follows the 80/20 rule, where 20 percent of the list takes up 80 percent of the deregulatory costs. But I guess I would be surprised, Art, to find that revenue is something that could offset—because I think the purpose is to reduce administrative burden.

*Art Fraas:* Yeah.

*Marcus Peacock:* Yeah.

*Richard Morgenstern:* Let me jump in here a bit, if I could, Marcus. I appreciate your very broad ranging introduction in covering a lot of topics here. Now, I guess I wanted to focus a little bit more on benefits. There's a lot of concern I think in this room and around the regulatory community that this order, despite your disclaimer that it is not undermining benefits, is in fact undermining benefits. And your
actual example, if I understood your very cute little example, didn't use benefits at all.

It was strictly tied to costs. So it seems to me that that undercuts a little bit the argument that you’re making. Now, what is the problem with benefits? This is an idea that, frankly, Ronald Regan introduced. And I think, as Richard has said, every president since then has endorsed. But we keep hearing that, "Well, there’s a concern that a concept isn't quite right or the measurement isn't quite right. There's some problem." And that this is a way of kind of undermining benefits.

If you read the 13771, I don't think the word benefits is used—maybe once and I missed it. But certainly cost is repeated many, many, many times.

Marcus Peacock: Yeah, this—

Richard Morgenstern: So let me go on a little further here. So I guess I'd like you to expand on that a little bit, okay? A related point is—I've gotta get my question in here because we seem to—okay.

[0:26:00] So this is a question of ancillary or co-benefits of regulation. You are probably aware that Chris Wallace had a rather strong interview with administrator Pruitt over the weekend. And Chris Wallace pointed out that there were thousands of cases of asthmatics and with respiratory illness, bronchitis or various illnesses, not to mention premature mortality, that were being thrown out simultaneous with the Clean Power Plan. And Administrator Pruitt was trying to defend the fact that the administration was looking for some benefit basis.

So this seemed inconsistent to many people, I would say. I guess this raises a question as to why this whole approach shouldn’t be seen as the guy who gets a new scale, and he likes the fact that he’s losing weight by checking his weight every day. And then when his weight starts going up, he decides to get another scale. He doesn't look for other causes. So is there really something deeper going on here, is my question?

Marcus Peacock: Yeah. And actually—I continue to be perplexed by the disconnect here. I can say that 12866 is still in effect. It has not been diminished. Executive Order 13777 makes it clear it's not diminished. But for whatever reason people don't believe that. It’s true; the executive order does not talk about benefits. So President Obama released Executive Order 13610 regarding retrospective
review, which I think is a good executive order. It doesn't mention benefits.

But it was not an issue that came up when that was issued. What I'm telling you is maximizing net benefits is still the gold standard by which regulatory activity has to be measured.

[0:28:00] Hopefully my role play got that across. The in had to go through 12866 review and had to maximize net benefits. To the extent the outs were regulations that had to go through 12866 review, they have to maximize net benefits. So as I've discussed this issue with folks, I think one of the differences is whether or not you think, whether you believe that there are existing regulations on the books that offer significant opportunities to be modified and maximize net benefits and reduce burden.

Now, if you think that's not the case, then this executive order poses a difficult constraint. Now, it's not that difficult a constraint. Because if an agency has no opportunity to find deregulatory activities that still maximize net benefits and cut costs, the enforcement is they have to write a report at the end of the year that says, "We weren't able to achieve our cap." And also, the director of OMB has the opportunity to wave the requirement, should an agency hit that wall.

I personally think that there's plenty of opportunity to take existing regulations off the shelf, either examine them through program evaluation or other means, which may be less onerous, and improve them so that they maximize net benefits and reduce burden on regulatees. So this just—I don't consider that second test diminishing the role of benefits. And if an agency ran into trouble and could not maximize net benefits and reduce burden, frankly, they won't have to.

[0:30:00] They'll either issue a report and say, "We've reached our limit," which I don't think we're anywhere near. Or they'll get a waiver. So I don't know if that answers your concern.

Richard Morgenstern: Well, let me just say that I appreciate your role play. But your role play, if I understood it, did not really deal with benefits. You were dealing with the costs here and the costs there, and you netted out costs. Okay? You didn't say you were netting out net costs.

Marcus Peacock: Right. So one of the two sheets that Art held up showed that the in action still had to meet the maximized net benefits cost. The out actions—you held up one of these. It says EO 12866 still applies.
So of course, 12866 has the “maximize net benefits” test in it. So as an out, you would still have to go through, if you were rule making, you would have to go through the 12866 review. You would have to maximize net benefits. I do not see the two as inconsistent.

Richard Morgenstern: But your example of the 50 and the 45 and the five, if I remember, was strictly a cost number. It was not a net number—it did not include benefits in any way.

Marcus Peacock: Correct. But I could not consider you as a deregulatory activity unless you maximized net benefits. You wouldn't be on the ledger as a deregulatory action.

Richard Morgenstern: Well, but suppose there were huge benefits associated with the—I guess it was the 45 that was coming out of me. And you only looked at that cost. So—

Marcus Peacock: Then we've pulled the wrong regulation off the shelf. There's another one up there which will maximize net benefits and reduce costs. I think that there's tremendous opportunity for that. And I think a lot of people think there's opportunity for that. I think this is one reason why retrospective review is so tantalizing. I think that there's a tremendous opportunity to both improve benefits and reduce costs in our regulatory stock in this country.

We've done a poor job for decades of going back and looking at the regulations that we've issued. And the other thing is conditions have changed.

[0:32:00] The regulations may have been perfectly fine and maximized net benefits when they were promulgated. But that probably is not going to be true for a lot of rules now. And one of the reasons I think the administrative burden is an easy one is because of what's happened with IT over the past 30 years. But even over the past 10 years the opportunities to reduce administrative burden due to change in information technology are tremendous. And I think this is one reason why other countries have found that very easy.

I know the Canadians, for instance, one of their largest reductions was for a report fishermen had to fill out in British Columbia. And that's all been digitized now. So the information is automatically collected and sent to the government without them having to fill out any paperwork. As I have these discussions, it gets down to whether or not you start with the belief that there's a tremendous
opportunity to improve what I keep calling the regulatory side, but all that CFR that's on the shelf or not.

And I just think there is. And I think the president thinks there is. And I think a lot of people think that there's an opportunity to do both.

Art Fraas: So Marcus—

Richard Morgenstern: Let's move on, yeah.

Art Fraas: Well, let me just ask quickly. So really the cost savings that you applied to Dick is a net cost savings?

Marcus Peacock: Yes. So—and this is another expectation I have—I think agencies as they, when a new regulation comes in, they will probably, as they go through that, have a deregulatory activity in mind, some way to save. And they'll bundle the two together. So we'll look at that. So there may be one action which both has a new in and one new out. So they'd just have to find another out.

[0:34:00] But I would expect to—just to save time and effort that you'll see some bundling that takes place. Yeah.

Richard Morgenstern: So the 45—wait a minute. The 45 is costs, or the 45 is net costs?

Marcus Peacock: Well, when you say net costs—

Richard Morgenstern: I assume—

Art Fraas: So we mean the benefits.

Marcus Peacock: So no, the cost is just on the cost side of the ledger. I want to make that very clear. And I think this is what causes your concern, Dick, as well as others, is they see that, and it's just cost with no consideration of benefits.

Richard Morgenstern: Right.

Marcus Peacock: But they forget the regulatory activities have already gone through a cost benefit test.

Richard Morgenstern: But that doesn't prove any—you're throwing out something that has a lot of boundaries there. I don't want to be dense, but—
Marcus Peacock: The only way it would get thrown out if it has a lot of benefits is if the costs are even higher—are disproportionate to the benefits. Right? You have to meet a “maximize net benefits” test. Right?

Richard Morgenstern: Suppose—to take your example, if the costs were $45 million, and the benefits were $100 million, okay? And there are many EPA rules and other agency rules that do have favorable net benefits by that definition.

Marcus Peacock: Yeah. That would be a poor candidate for this.

Richard Morgenstern: Well, you would say it's a poor candidate. But is there—

Marcus Peacock: How am I going to get you through a maximize net benefits test and not look good?

Richard Morgenstern: Well, the rule passed easily because it had benefits well in excess of cost. That's the point. So the $100 million exceeded the $45 million. Now when you've thought to throw it out, if you only look at the $45 million, the $100 million could get tossed off to the side. That's the problem.

Marcus Peacock: I see. I guess what I'm telling you is we're not going to be picking rules that meet the maximize net benefits test in order to throw them out. That would be perverse, to be only looking at rules that result in a lot benefits.

Richard Morgenstern: Okay. Well, that's good. But the executive order as I read it doesn't say that, in fairness.

Marcus Peacock: Yeah. All right.

Art Fraas: We're going to move along.

Marcus Peacock: Yeah.

Art Fraas: So we're moving on to another area that is of special interest at RFF, and that's the social cost of carbon.

[0:36:00] Some economists have argued that agreement on any specific government wide social cost of carbon is preferable to no agreement across government. And the recent executive order—I think it's called Energy Independence and Economic Growth. I don't know that there's a number yet. But replaces the IWG social costs by directing agencies to rely instead on the Circular A4. So
under A4, there is ample precedent to use different estimates and assumptions across agencies.

How do you expect the administration to proceed? I've heard some people say, "Oh, what this means is, the agencies have to go back to Bush two and what they did then." And some people have suggested that there will be a wide range of different social costs of carbon coming from different agencies. And it could be that there will be a move maybe orchestrated by OMB to come up with a single, government-wide social cost of carbon. So can you help us know what the expectation is?

Marcus Peacock: Well, unfortunately, I cannot. It has not been [laughs] it's simply not been in my portfolio. I'm of course aware of the executive order action taken the other day. I have not been involved in it. So I don't have an answer for you. Sorry. [Laughs]


Art Fraas: So let's come to the regulatory budget. Okay? So this is an issue that you've written on. You have a paper that describes it.

Marcus Peacock: Yeah. This I can answer.

Art Fraas: Okay. So I've often wondered how a regulatory budget actually works.

[0:38:00] It's been criticized in the blogosphere, as I'm sure you know, as being potentially arbitrary, highly arbitrary. So how will the OMB director set the regulatory budget for different agencies? Will he use benefits analysis? Will he use some other approach? Will there be a methodology that will be discussed in public sphere? Will it be open to public comment?

There's a lot of mystery about the regulatory budget and how it will be handled. So I guess if you could provide us—

Marcus Peacock: And that's a good place to go. So I don't consider this a budget. There are caps. There's going to be a cap on each agency in terms of the net costs. And I mean net incremental costs. So if you just looked at the cost side of the ledger, the additional costs that that agency's regulations would impose on society for a fiscal year, the OMB director will, in consultation with the agency, come up with a cap for each fiscal year. And the cap for each agency for the rest of this year, '17, by the way, is zero.
That was set in the executive order. So there's an expectation that the additional costs will be offset by the end of the—any additional costs from new regulations will be offset by reductions in costs by the end of the fiscal year. And there's no net cost to society for new regulations. We've asked as a part of the data call for the regulatory agenda for the spring update for agencies to propose to us their cap that they would suggest for fiscal year '18.

Now, the process by which—and first of all, I don't consider that a budget. Because—so if you think about a fiscal budget, there are caps on discretionary spending. But no one would say those caps alone are a budget. And that's kind of what we're dealing with here, are caps. But there's no overall budget of benefits and costs that's going up to the Hill to be proposed. And then the Congress isn't going to have some sort of regulatory budget resolution. You talk about whether that's a good idea or not. So the caps—the process by which the caps will then be determined I think still has to be worked out. And there'll undoubtedly be an opportunity for people to comment on that process. That is something that I'm particularly cognizant as a senior—a part-time—well, not part-time but temporary senior advisor to ORIA. I think it's something that an OIRA administrator should be able to help decide and weigh in on.

And hopefully we'll have a name nominated soon. So even the process for fiscal year '18 I think will be something we'll do as we go along. But there should be a more regularized process for doing that, which, for instance, like other process for setting caps, allows a back and forth between the agency and appeals process. At least the process itself when it's set up, people should be able to comment on what they like about it or don't like about it. But in the end it'll be a process which will be internal and deliberative, but eventually will be released by the president, either as part of his fiscal budget, or it could be a separate document.

But I think the executive order—I think that President Trump would like to see the regulatory caps released as part of the fiscal budget eventually. One of the issues with that is the reg agenda does not go on a fiscal year basis. Yet right now it's the vehicle for looking at the regulations we're going to do and issuing the caps. So there's something there that will have to be probably amended or fixed.

Art Fraas: So your answer focused on the process, which is very appropriate. But I guess my follow-up might be, going back to the earlier
discussion of benefits, are benefits going to be a factor in setting these caps?

[0:42:00] If you have two agencies, and one is potentially saving lives or doing things that have large value, and another is doing less—

Marcus Peacock: Yeah. Now, that is a great question. So the caps will be set from the bottom up. I think that's the way it has to be done. So each agency—and this is one of the reasons the reg agenda is the vehicle for doing this—each agency will look at what its planned regulations are for the coming year. And it will say, "Well, these are the regulations that we want to issue or have to issue." And that's, for instance, when I would say benefits would be an important factor.

We know we're going to get a lot of benefits from this particular rule, for instance. So this is one we definitely want to issue on this timeframe. And then the agency's going to have to say, "Well, so what deregulatory activities can we take in order to offset this regulation we very much want to do?" And that's where benefits, again, would come into play, as I tried to indicate before. Which areas of the existing regulations do we know we could modify so that we could maximize that benefits and reduce costs burden to offset this rule we very much want to do because the benefits are so high?

That to me is where benefits would come into play. And then when the rule itself is issued, it would go through 12866 review, as would the deregulatory activities, if they're rules.

Art Fraas: In terms of the caps, is it likely that some agencies will get negative caps?

Marcus Peacock: Yes, I would expect that. This is actually a great point. It will be a test of how much inefficiency one thinks is in the CFR right now. Because I would expect agencies to think that they have a lot of opportunity to reduce burden and still obtain the benefits they want to obtain.

[0:44:00] We'll say, gee, there's a lot of deregulatory we can undertake. And we will have a—there will be a banking provision. So they can go ahead and step out even though they may not need to deregulate to offset a new rule, deregulate and bank those cost reductions, for instance, for future regulatory activity. So an agency that's confident about its ability to make the current stock of regulation efficient would likely have a negative cap.
Other agencies, where they may have to undertake rules to achieve statutory objectives or there's a lot of benefits that can be achieved but may not feel that they have as much opportunity for deregulatory activity would probably have a positive cap.

**Art Fraas:** And will there be a—I think for this fiscal year there's sort of a requirement of zero across the board.

**Marcus Peacock:** Right.

**Art Fraas:** Will there be some kind of a constraint across agencies in future fiscal years, or not? In other words, would there be a sort of a net zero in 2018?

**Marcus Peacock:** Oh, across government?

**Art Fraas:** Yeah.

**Marcus Peacock:** I think each agency has to look at its own stock of regulation and decide what it both needs to do based on what it's statutorily required to do, for instance, as well as where they think they could get large benefits. And again on assessment of where they think they can improve the existing stock of regulation. And so the overall—whatever the overall reduction or, I suppose, addition of costs would be is going to have to be built up from that.

The president is not going to say—I think there was a lot of confidence that there's enough inefficiency in the system that we could achieve zero based on the regulations that were coming out for this year. But that's something that's going to have to be built from the bottom up for FY '18 and beyond.

**Art Fraas:** Just to clarify one point, though, this regulatory cap is strictly a cost cap?

**Marcus Peacock:** That's correct. Yep. Now, let me—because we've got experts in the room.

[0:46:00] One of the interesting things—and people who do cost benefit know this—is you can take a benefit and turn it into a negative cost. So if you're doing cost benefit ratios, for instance, at the corps of engineers, you can take things and move them from the denominator and numerator. And so a cost is a flexible term. And our intention is to make sure that the convention that agencies have followed when they looked at the—said, "Well, these are costs,
and these are benefits," that if you're undoing a regulation, that whatever was considered a cost in the past, if you're undoing it, is now a reduction in costs.

And whatever was on the benefit side does not take part in that calculation of cost savings.

**Art Fraas:** Am I up?

**Richard Morgenstern:** Yeah.

**Art Fraas:** Yeah, I'm up. All right. So recent administrations, including the last administration, have launched regulatory look backs. So how will this administration's reg reform initiative differ from those earlier efforts?

**Marcus Peacock:** Yeah. So to me this is the biggest advantage of this executive order, is it changes the incentives of agencies. I personally am not positive it will work. But I'm optimistic. And just based on the conversations I've had with agencies thus far, agencies are now seriously looking at their existing regulations and other requirements and actively trying to come up with ideas for modifying them so that they're more efficient.

Now, they're obviously focused particularly on the reduction in cost. But they know that they also obviously don't want to produce something that is not going to meet the requirements of 12866. A deregulatory activity which eliminates far more benefits than it does costs is not something that would meet that requirement.

So they're looking for opportunities that are going to make existing regulations more efficient. Ideally, you'd get both lower costs and higher benefits. And those are the ones that in particular you want to look for. So I think it's changed the incentive. So you finally have a way to, rather than pushing the rope and trying to get agencies to perform retrospective review—

I think about it sort of like infrastructure. For the most part, politicians like mayors would prefer to cut a red ribbon on something that's new than spend money on maintaining a road or a bridge, which isn't as sexy. That's the same thing for me when I think about regulations. Regulators would tend to think—like to think about new regulations and to issue rather than go back and look at old ones.
RFF Seminar: A Conversation with Marcus Peacock

And this is providing the incentive to actually maintain the road you've built rather than look for what the next new thing is.

Art Fraas:
But in the short term, the regulatory reform executive order has a very short timeline of 90 days for the agencies to come up with their lists. Usually, at least for me to do an analysis, it takes more than 90 days. Is there going to be a careful analysis of these rules? And how will that process work out?

Marcus Peacock:
Yeah. Well, there'll have to be, as we've already discussed, particularly—but we think there's a lot of low-hanging fruit in it. It's a kickoff to a living list of ideas for making regulations and regulatory requirements more efficient. And frankly, there were a lot of people that already had a lot of lists around. And in the past, for instance, I think there had been lists which OMB has given agencies and said, "Here, you should do these."

[0:50:00]
In this case, the agencies themselves are asking for suggestions both within the agency and without the agency. And I'm sure they're getting suggestions also from folks that they have not solicited. But it'll be an initial list, some of which probably will not pan out, some of which I think will be no-brainers. They just haven't put the resources into doing them before. I know there are plenty of people already in this town and elsewhere who are thinking hard about ways to reduce burden on regulated communities, whoever that may be, including whether it's state and local communities or others.

Art Fraas:
So will there then be a, at least for the major, significant rules, a benefit-cost analysis that—the full, rigorous benefit cost analysis—as one would expect under 12866? And is—

Marcus Peacock:
There is no change in 12866. And no diminution of 12866 review. One could argue it becomes more important rather than less. Yeah.

Art Fraas:
And in terms of retrospective analysis, can we expect the agencies to be putting substantial resources into doing retrospective analysis, especially in the longer term? As presumably it will get harder to develop these lists.

Marcus Peacock:
I agree. It will. That's why I encourage banking by agencies. I will argue again, I think if you're interested in retrospect of review, this executive order provides the incentive for agencies to do it. It's a very good thing. It's something that hasn't been tried before. I'm optimistic about it. Shifting resources within agencies to allot more resources spent on retrospective review—
and agencies thinking harder about longer term retrospective review included. There's low-hanging fruit. But if you look a number of years down the line, they're going to have to start now, particularly looking at some bigger regulations to determine whether or not those regulations are getting the benefits that were expected as well as imposing the costs that were expected. And Art, you and others have done great work on this.

The interesting thing about retrospective review is there've been arguments in the past that, “geez, agencies always overestimate costs and underestimate benefits or overestimate benefits and underestimate costs.” And so far, it's uneven. You find both happening, which I think is interesting. And I think we're going to get a lot more results. And my guess is that continues to be true.

So it implies that the agencies are going to have to really use their expertise to determine what existing regulations probably are the ones to target. It's not going to be easy.

*Richard Morgenstern:* Just one quick follow-up on that before we turn to the questions from the audience, which we've gotten some nice ones. I encourage anyone else who wants to contribute to do so now. So the idea of having some type of a program or requirement to do retrospective analysis, that's been floated by a number of people. Art and I have floated it, but frankly other people have floated it, as well.

Is that something the administration is thinking about? Or it's not really on the table?

*Marcus Peacock:* Yeah. Retrospective review is of interest to the administration. Once again, I think this executive order, that was certainly part of the thinking in this executive order. But it continues to be of interest. I don't know what action may result from that. But it's definitely something that people would like to pursue.

*Richard Morgenstern:* Okay, having said that, I think it's time for Art and me to silence ourselves here.

[0:54:00]

*Marcus Peacock:* Thank goodness. [*Laughs*]

*Richard Morgenstern:* And take questions from the audience. We have some nice ones from the audience, too. So I think you'll be—it'll be
interesting. So one—somebody asked, what is the cost of the newly required analysis? What is anticipated? Is this going to add to the burdens of agency? And is there at a time particularly of budget cutting, how is this going to be accommodated?

Marcus Peacock: Yeah, that's a great question. I see it as more of a shifting of resources from—once again, it'll be resources that may have been going into new, perhaps discretionary regulation, which we shifted into looking at regulation that's already been promulgated and improving it.

Richard Morgenstern: So somebody asks here, what prevents the bureaucracy—and I'm quoting—from offering up rules to be dropped that are mandated by statute. So the new rule would go into effect, and the courts would be back killing off the rule that was dropped—or reinstating the rule that was dropped, rather.

Marcus Peacock: Well, assuming the activity has to go through 12866 review, it wouldn't make it—it wouldn't pass muster through that, since one of the requirements is 1A is whether there is a statutory requirement. Obviously, common sense would also dictate if there's a statutory requirement, that is something that—it's the executive branch, after all, that has to be executed. So once again, I think there is plenty of discretionary or modification that can be made to existing regulations that meet statutory requirements but reduce burden.

But if you don't believe that, then—I guess the, with the use of the term bureaucracy, it's a question of whether or not agencies will game this. And I suppose some might try and do that. But then it just becomes a matter of enforcement.

Richard Morgenstern: Okay. Here's another question, sort of a broad framing question. In determining costs to society, why hasn't the administration taken the approach of focusing on social costs rather than private costs only?

[0:56:00]

Marcus Peacock: Yep. So that's another misnomer. So for instance, the United Kingdom uses as their measure of cost the cost of compliance to businesses. And that would be a good question for the United Kingdom. We define costs as costs to society, opportunity costs. That's in the interim guidance that was published, so actually there's a final guidance coming out I think today. So that includes, for instance, if there's an increase in cost to consumers.
Anything that would be considered a cost in a 12866 review will be considered a cost under this executive order, as well. So it's not limited to costs to businesses or—I mentioned before state and local governments. I mentioned that because I happened to know that there is an effort among state and local governments to come up with ideas for improving the existing regulation to reduce burden. And that's one of the efforts that's taking place.

So for instance, it's not just cost to businesses or even to regulatees. It's measured as opportunity costs to society.

Richard Morgenstern: So how about the energy savings to consumers associated with mandated efficiency, appliance standards, or CAFE standards? How are they going to be considered?

Marcus Peacock: Well, so, once again, agencies will have to follow whatever convention they followed in the past regarding what they've considered costs and what they've considered benefits. So if, for instance, the reduction in energy use was considered a benefit to consumers, and let's say that regulatory requirement is being repealed, that would not be considered a cost savings or a negative cost to offset on the cost side. At least I don't think so.

I actually think that specific question's going to be addressed in the final guidance.

[0:58:00] So maybe a better thing would be to look at that.

Richard Morgenstern: Okay. Let's turn to the Clean Power Plan. We have a question here as to whether the remand of the Clean Power Plan is going to count as a regulatory reduction, presumably a cost saving.

Marcus Peacock: Yeah. So once again, to the extent there's a deregulatory activity which results in a reduction in costs to society, it will count as a cost savings. One would have to work through that and see what the savings might be. But yeah. It could be large.

Richard Morgenstern: Okay. How about the issue of sunk costs? There's been a lot of discussion that, well, when a rule goes on the books, a lot of the costs are up front. Okay? And so when you try to reverse it, you don't get much savings. How is that going to factor in?

Marcus Peacock: Well, Art always taught me you can't consider sunk costs. So you can't consider sunk costs.
Richard Morgenstern: Okay, so there's going to be an explicit attempt to rigorously enforce that?

Marcus Peacock: I think the guidance also will address that.

Richard Morgenstern: It will?

Marcus Peacock: Yep.

Richard Morgenstern: Okay. Let's see. Other questions that we want to get in here. [Laughs] Someone asks, what's the cost benefit analysis on the border wall?

[Laughter]

We don't need to answer that.

Marcus Peacock: It's actually an interesting—can I take 30 seconds?

Richard Morgenstern: Sure.

Marcus Peacock: Part of this executive order is to try and address something that's happened in the fiscal world, where people try and control spending. And there aren't similar controls in the regulatory world. We are pretty good in the regulatory world, I think, right? Relatively good in looking at benefit and how they are weighed against costs. We're awful in the fiscal world at determining the benefits of programs the federal government spends money on. And that is another area—

[1:00:00] I think this executive order goes to some extent to try and correct this difference on the regulatory side. It would be interesting for people to work on the fiscal side determining the benefits of what we get, as well, which to some extent gets back to program evaluation.

Richard Morgenstern: Okay. Somebody—how are we doing on time? We've got a few more minutes here. Somebody is asking if you would want to venture any type of possible candidates for low-hanging fruit for deregulatory actions.

Marcus Peacock: No, not personally. I frankly haven't—most of my time is—at OMB, I've looked at process questions—I haven't been involved in transactions. Again, I just think it's going to come out of administrative burden. That's where other countries have found the low-hanging fruit. It's also tends to be easy to fix. If you can still
collect the same data, but you can do it more efficiently, which is I think where most people are going to find the easiest things to do, I think that's where it's going to come from first.

But no, I don't necessarily have anything off the top of my head. I will say, just so people are aware, the congressional review act revocations, to the extent that the president—and I think he's supported them all—he's supported and signed them all. Those do count as savings for the purpose of the executive order. So there are agencies that are already banking savings, although there'd have to be estimates of what the cost savings have been from them.

Art Fraas: But as I understand it, if a court overturns a rule, those cost savings don't count.

Marcus Peacock: That's correct. So the notion is there has to be some policy decision that results in the cost savings. And a court overturning—that's not a policy decision by an agency or an administration that results in a cost savings. In fact, that may indicate the agency did something wrong. So we don't want to reward bad behavior.

[1:02:00] But in this case, the Trump administration supported the CRA resolutions of disapproval, and the president signed them. So the notion is the administration should get credit for those cost savings.

Richard Morgenstern: So someone has pointed to the fact that these offsets, the outs in your little example, are tradable across agencies. And there's been some skepticism in the blogosphere about how that would actually work.

Marcus Peacock: Yeah. So—

Richard Morgenstern: I wonder if you could comment on that.

Marcus Peacock: Well, one of the biggest advantages I mentioned before is the incentive this places on agencies to go find places to improve their current regulations. The more trading that's allowed across agencies, the more you diminish that incentive. So there will be an opportunity for trading. I think it's going to be tightly controlled. Once again, I would leave that up to an administrator and an OMB director.

But there will be opportunities for that. So let me plant another notion here: the regulated communities don't tend to think about what agencies they're getting, despite the fact this is set up by
agency. There's a cap for each agency. The regulatory community just knows they're getting regulated by the federal government. So another way to look at this would be to look at particular sectors, whether it's manufacturing or small communities or printers and say, well, let's say steel, a steel industry.

There's been—we think that there's been a lot of dumping of cheap steel from another country. And if you wanted to provide some relief for the steel industry, you could target this requirement and make commitments regarding cost savings for the steel industry. Now, that may cut across a number of agencies. If you wanted to direct it that way, you would use trading to do that. But it does raise regulations now, particularly in the context of one in, two out, as another tool for trying to improve the economy in particular ways.

[1:04:00]

Art Fraas: I've been puzzled about the trading across agencies because for an agency that's producing cost savings, it's not clear to me what incentive they have to produce that cost savings so some other guy can use it. So there's a use or lose problem with it. And do you see any incentives to the agency producing the cost savings?

Marcus Peacock: At this point the—

Art Fraas: Get to meet the president, or?

[Laughter]

Marcus Peacock: Well, that—actually, there may be—there are different ideas for setting up competitions or whatever, which I'll let others think about. But right now the main incentive is the requirement that new regulations have to be offset, which I think is a powerful enough one. There'll be attempts to game it; I have no doubt. But if it's enforced, and I think it will be, it's a powerful—it's a relatively powerful one.

And I think it does mean that we're going to be very careful with trading. The administration will be very careful with trading certainly to begin with so that that incentive is not diminished.

Richard Morgenstern: So I've got two more questions here. One I think we tried to touch on before, but we must not have done an adequate enough job. So let's take another run at it, okay? So this person asks, is the intention that the two-for-one packages would jointly maximize net
benefits of the ins and the outs? And if the answer is yes, then of course that would allow benefits to enter into all parts of the analysis.

However, if the answer is no, then it is possible, as I think we went back and forth with before, that the benefits of the eliminated rules could actually be considerable. And we could end up with a overall decision that is inconsistent with this maximizing net benefits approach,—

[1:06:00] which you have embraced by embracing the 12866 story. So I guess there's a potential inconsistency here that I think obviously—

Marcus Peacock: Yeah. Wait; so let me ask this question. If all three—let's say there are three actions. And they're all subject to 12866. Would they not then also jointly maximize net benefits? If you maximize the net benefits of each one, it seems to me you would be maximizing net benefits of them all jointly.

Richard Morgenstern: Well, I could think of an obvious counter example. Suppose you've got one where the net benefits were—let's call them zero. Okay? And another one where they were much—very large somehow. That there were large gains. And they're both at equal cost. Then you can imagine the story, that you matched them all up in your two-for-one. You threw out a whole pile of benefits. I think that's the concern that people have.

Marcus Peacock: If the deregulatory action—deregulatory, so you are undoing something. If you're undoing something that resulted in a lot of benefits for low cost, and you're undoing it. And you put that deregulatory action through 12866, you're not going to be maximizing net benefits. Because you're undoing something that does maximize net benefits. I guess that's what I'm trying to across.

Richard Morgenstern: Okay, so—

Marcus Peacock: Is that it's not going to make it through the screening.

Richard Morgenstern: So your answer then, I think, is the first part of this question that this person laid out, that you are really jointly considering the benefits maximization. And if so, at least in my view and I think in this questioner's view, then that's less of a problem certainly than if you're only focused on the cost, which I think is what many people read into the executive order.

Marcus Peacock: Right.
Richard Morgenstern: And your example, frankly, with all due respect, didn't—

Marcus Peacock: Yeah, well, and I—so I have to keep working on it, clearly. I—what I can't—I don't want to leave people with the impression that all three are going to be bundled, and there's going to be a cost benefit analysis of all three at the same time.


[1:08:00]

Marcus Peacock: Yeah. I don't think the timing's going to work out that way. I think you may have—the three actions may be going through at different times. But each one will have to meet a maximized net benefits test. So if you're taking—undertaking a deregulatory action, you're still going to have to maximize net benefits. And so I don't know. The people in the room are going to be smarter than me.

Art, does that make sense to you? If all three have to alone meet the test, does it not mean that they—unless there's interaction between them. But I think all—then it's the same thing.

Art Fraas: If they're independent, if each one individually meets the maximize net benefits [test], then the group should.

Marcus Peacock: Yeah.

Art Fraas: But there is a—

Marcus Peacock: And that's what I'm saying.

Art Fraas: But I also read it as not requiring that each bundle meet the test. That is, you could have two rules that don't have all the cost savings to offset the new rule. And then you can pull in some cost savings somewhere else.

Marcus Peacock: Yes. But once again, if the third item, deregulatory item, has to go through 12866 review, it also has to meet the maximize net benefits test. What I think's going to happen in the short term is a lot of these are going to be, once again, administrative savings that probably will not go through 12866 but will be kind of simple, somewhat boring stuff. But I think in the end we will get to this—to a place where most of these are going to be rulemakings that 12866 applies to. So I hope I haven't—that doesn't confuse people more.
Richard Morgenstern: The final question that I've got here from the audience is do you anticipate that the OMB or the OIRA budget will need to increase in order to manage all of this activity?

[Laughter]

1:10:00

Art Fraas: That's from the prospective new OIRA administrator.

Marcus Peacock: I will—[laughs] yeah. I will—

Richard Morgenstern: That person did not put their name on the card, by the way.

[Laughter]

Marcus Peacock: Yeah. I will let—the president will be submitting a request for OMB's budget, as well as OIRA. So I will let that speak for itself when it comes out.

Richard Morgenstern: Okay.

Marcus Peacock: There. Like a true budget person, I gave that answer.

Richard Morgenstern: All right. Well, I'd like to thank you very much for coming here, for participating in this very lively discussion. Thank you.

Marcus Peacock: Yeah. Well, thank you.

[Applause]

[End of Audio]