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IN DEFENSE OF THE ECONOMIC ANALYSIS OF REGULATION

By Robert W. Hahn

Local and national governments throughout the world require extensive use of cost-benefit analysis and related tools to make multimillion- and multibillion-dollar decisions that significantly affect their citizens' health and welfare. Recently, however, some legal scholars have criticized the economic analysis of regulation as fundamentally unsound and unusable. The debate over analysis of environmental, health, and safety regulations—which cost \$200 billion annually—has been particularly heated. The benefits, which are difficult to accurately estimate, may be even larger.

In a landmark study of this issue, *In Defense of the Economic Analysis of Regulation*, Robert W. Hahn, an economist who supports the use of economic analysis in measuring regulatory impacts, agrees that placing monetary values on the costs and benefits of regulation is difficult. Nevertheless, Hahn demonstrates that quantitative analysis has provided scholars and practitioners with useful insights into the policy process and has fostered more efficient regulation.

Hahn shows how differences in the cost-effectiveness of different investments in life-saving activities could have important implications for public policy. For instance, it matters whether the government chooses to require reductions in radiation exposure from X-ray equipment (\$23,000 per life saved) or radiation emission controls at uranium fuel cycle facilities (\$34 billion per life-year saved). Similarly, economic analysis is helpful in deciding whether to pass a mandatory seat belt use law (\$69 per life-year saved) or require airbag installation in cars (\$120,000 per life-year saved). Governments may, in fact, choose to pursue all of these measures, but since resources are limited, we must have tools to help us prioritize our options.

Using the government's data from regulatory decisions, Hahn applies economic analysis to the most comprehensive set of federal regulations to date. He finds that cost-effectiveness varies over several orders of magnitude and, most important, that approximately half of the individual regulations would not pass a strict cost-benefit test using the government's numbers. Hahn shows that reallocating funding to life-saving alternatives in developing countries could save substantially more lives at the same or lower cost.

Rather than eliminate the quantitative analysis, Hahn recommends responding to legitimate concerns raised by the critics by gaining a deeper understanding of its strengths and weaknesses and using it wisely.

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