

RESEARCH SUMMARY

Regulatory Reform: Current Efforts and How They Can Be Improved

A wave of regulatory reform appears to be sweeping the United States. It seeks, at least in part, to address the slow economic growth the nation has recently been experiencing—arguably the result of half a century’s near-relentless growth in regulation. In “[The Mighty Waves of Regulatory Reform: Regulatory Budgets and the Future of Cost-Benefit Analysis](#),” James Broughel assesses the effectiveness of the current wave and what the next one might look like.

THE CURRENT WAVE OF REGULATORY REFORM—CUTTING RED TAPE WITH REGULATORY BUDGETS

- *State-based reform.* The federal government has been experimenting with regulatory reform in recent years, including via use of a regulatory budget. However, states such as Virginia, Idaho, and most recently Ohio have been making the most significant headway when it comes to reviewing old regulations, establishing budget infrastructure for regulations, and setting benchmarks for reducing red tape.
- *Lessons from the past.* The current wave of reforms is largely a partisan effort advanced by Republicans. (The bipartisanship in Virginia is a notable exception.) However, two earlier waves of reform (the first began in 1946 and the second in the mid-1970s) also started as largely partisan efforts but over time garnered widespread support. It is entirely possible that the partisan character of the current reform will limit its longevity, but if regulatory budgets play out like the two previous waves of reform, they may eventually enjoy more bipartisan support.

THE NEXT WAVE OF REGULATORY REFORM—REVISITING THE FOUNDATIONS OF COST-BENEFIT ANALYSIS

- *A potentially useful but currently flawed tool.* For several decades, cost-benefit analysis (CBA) has been the analytical tool used to evaluate regulations and their impacts. However, critical problems with CBA remain unresolved and are likely to be revisited as part of a future push for reform.
- *How CBA can be improved.* CBA should measure economic efficiency (specifically, it should focus on cumulative net welfare changes) rather than intertemporal distributive justice (which is pursued by discounting future periods). Such a reform would pave the way for significant improvements in evidence-based policy.
- *Back to the states.* As laboratories of democracy, the states can help set clear new standards for CBA. The experimentation that they permit may prove to be the best hope for ushering in the next wave of regulatory reform.

KEY TAKEAWAYS

Sometimes Washington leads and the states follow, but in the current era of regulatory reform, states are leading the way. Washington should pay close attention to the simpler yet more comprehensive regulatory budgets that states are adopting.

Both the states and the federal government should consider enhancing policy evaluation tools such as CBA by shoring up their theoretical underpinnings. CBA must be reformed in order to maintain a prominent place in regulatory policy. If this does not happen, the credibility of CBA among economists, policymakers, and the public will remain in doubt—along with any policies based on it.