REGULATORY REFORM

OVERVIEW

Regulators throughout the federal establishment have long been the presumed glue holding together human and environmental well-being. Yet businesses, state and local governments, and private groups dedicated to conservation add far more than their two-cents' worth to the cause. Federal efforts just happen to draw the most attention and scrutiny — especially in recent years.

The burden that federal regulation places on the private sector had become apparent to conservatives and liberals alike. For example, the respectively conservative and liberal American Enterprise Institute and Brookings Institution formed a “Joint Center for Regulatory Studies” as a “response to growing concerns about the impact of regulation on consumers, business, and government.”

One way to get our arms around the amount of regulation involves tracking regulatory activity. The most common measure counts the number of pages the regulatory bodies publish annually in the repository for regulations, the Federal Register. Most recent page totals rival highs reached in the Carter administration. Dramatic page-count jumps coincided with the dawn of the environmental age, stretching from the early- to mid-1970s.¹

The cost that regulations impose on society serves as a better yardstick for gauging their impact. An estimate by Rochester Institute of Technology professor Thomas D. Hopkins tracks the regulatory burden growing to $788 billion in 2000.² The overall totals also furnish information for tracking the ebb and flow of the rules’ burden on society. It hardly needs saying that the regulatory state is on the march of late. Since regulatory costs dropped to a low in 1987, the menu of rules and the like has risen about 29.1 percent.³

Significantly, these figures describe the yearly regulatory landscape in inflation-adjusted 1998 dollars. That leaves three possible explanations for the current state of affairs: (1) there’s more regulations now than previously; (2) regulations are more difficult, and, therefore, more expensive to live up to; or (3) both conditions apply.

Who Pays the Piper When the Music Drones?

It’s common to perceive that businesses pay the piper. But a broader point, however, reveals

² Ibid., 4.
³ Ibid.
that the added and hidden costs will be passed on to everyone. If you live in the Midwest, the price spikes experienced at the gas pump during spring 2000 had much to do with clean-air-inspired regulations requiring refiners to switch fuels, even though little excess capacity for doing that job prevails to this day. Californians have learned that state government-led electricity market restructuring done incorrectly literally has left them powerless. In the aggregate, the costs of regulation are very significant.

For example, in 1998, the costs of regulation to consumers was estimated a total of $749 billion, or $7,410 from the typical two-income family’s budget. That’s 17.7 percent of that household’s after-tax income.

**States’ Freight**

Business groups are far from alone under Uncle Sam’s thumb. State and local governments chafe at their federal brethren lording over responsibilities they otherwise are supposed to share. Efforts to alleviate this situation also have yet to pan out. Back in 1987, Executive Order 12612 called on federal rulemakers to perform a federalism impact in their regulations. A General Accounting Office (GAO) probe of 11,414 rules published between April 1996 and December 1998 found that just five contained that federalism analysis. Or consider the environmental arena. States take the lead in helping EPA carry out a number of the laws Congress has enacted over the years. A few examples include the Clean Air Act, the Clean Water Act, and the Resource Conservation and Recovery Act. But that same GAO study discovered that EPA never paid heed to the executive order in the 1,914 rules it issued during that relatively short period.

— CEI Staff.

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5 Critics might suggest that the different time frames are important, but they also must acknowledge that both studies looked at agency performance in federal courts after the Supreme Court spelled out the *Chevron* doctrine.

6 Adler, *Environmental Performance at the Bench*, ft. 42.


8 Ibid.


10 Ibid.
CONGRESSIONAL RESPONSIBILITY ACT

Our schools teach students how our government neatly separates authority among the three branches of government. So it goes that the legislature makes the laws; the executive branch enforces or carries them out; and the judiciary interprets and resolves the legal questions and disputes that arise among people. Those clean, civics-lessons lines have fuzzed with the rise of the administrative and regulatory state. Congress passes laws, but defers additional legislative responsibility to bureaucrats, who decide the specific workings of the law. For most of U.S. history, such delegation of legislative responsibility was ruled unconstitutional. It has only been since the administration of Franklin Delano Roosevelt that the courts have allowed the expansion of the regulatory state via delegation of legislative authority.

Legislative History

Members of Congress have introduced legislation to address delegation. Since the 104th session of Congress, Rep. J.D. Hayworth (R-Ariz.) has teamed with Sen. Sam Brownback (R-Kan.) and others to push the Congressional Responsibility Act. In 2001, Hayworth reintroduced a version of this legislation, H.R. 105. The proposal would require Congress to vote to approve all regulations before they become law. The mantra of this bill is “no regulation without representation.” The goal is to restore accountability both to the agencies issuing rules and to Congress, which empowered them in the first place to formulate what amount to legally binding instruction books.

Why We Need Regulatory Accountability

At first blush, it seems appropriate to hand over the difficult questions for experts to resolve. But such delegation creates its own set of problems. By way of legislative vagueness, bureaucracies have gained powers that resemble and, in fact, rival those of lawmakers. Filling in the legal details for a new environmental law often amounts to crafting a new law itself. Ironically, while Congress delegates this authority with the hope of gaining expert, scientific policy, it often encounters agency directives lacking a sufficient foundation in science.

- One example that stands out is the Occupational Safety and Health Administration’s (OSHA) April 1994 attempt to set an effective zero-tolerance standard for environmental tobacco smoke (ETS) in the indoor workplace. Statistically significant findings linking ETS to cancer had not been established to justify regulating. Instead, the proposed rule connected the unquestioned link between actual smoking and cancer and the carcinogenicity of tobacco smoke in animals to leap to conclude that “the chemical similarity between mainstream smoke and ETS, clearly establish[es] the plausibility that ETS is also a human lung carcinogen.”

When lawmakers fence off an area to regulation, agencies look for other statutory language to justify their positions. For example:

- The Food and Drug Administration’s assertion of regulatory authority over cigarettes, despite provisions of the Food, Drug and Cosmetic Act leaving such questions directly with Congress.

- Another case concerned EPA’s documented plans to implement parts of the climate change Treaty negotiated in Kyoto, Japan, even though the pact has not been ratified by, much less even submitted to, the U.S. Senate.
When there is some hope for reasonableness, lawmakers often find none forthcoming from rule-issuing bureaucracies:

- For example, the U.S. Senate and House voted in March 2001 to overturn long controversial, and very unreasonable, rules on ergonomics issued by OSHA in the waning days of the Clinton administration.

- Likewise, the EPA proposed rules in June 2000 requiring that 97 percent of the sulfur content in diesel fuels be removed beginning with model year 2007. When the sulfur standard was last dropped to 500 parts per million in 1993, diesel users mostly found in the trucking industry experienced engine reliability problems. The new EPA standard attempts to achieve a sulfur content standard for diesel fuel of 15 parts per million.

**Congress to Agencies: “Please Fill in the Blanks”**

Blame cannot be placed solely on the agencies, however. Congress bears the ultimate responsibility for legislating and for the results of passing that responsibility off to agencies. Indeed, leaving huge areas for both legitimate and bogus details to be filled in makes for a ready recipe for trouble.

Resulting battles suit certain elected officials just fine. They delegate to the agencies, and when agencies impose burdens on their constituents, politicians not only blame the agency, they take credit for intervening and pulling the agency back. This pass-the-buck attitude permits them to retain a most cynical escape hatch, having it both ways.

Members of Congress also know how to protect against some possible abuse. Those most familiar with the ins and outs of writing laws know how to hone legislative language to include, say, a favored project for the folks back home or to exclude a party from the teeth of a law through an artfully phrased omission. Even absent intent, the usual push and pull of the legislative process, the often enormous scope of the legislation considered, and the close attention some politicians feel they must pay to persuasive interests mean that agencies so inclined will discover regulatory opportunities for themselves later.

**The Environmental Benefits of Accountability**

More important than the upgrades in the process, the environment itself could take bigger steps forward with a more accountable government. New York University law professor David Schoenbrod, for instance, believes that intense federal involvement in regulatory processes precludes greater environmental progress. Schoenbrod hopes that states will get more involved. He believes their proximity to problems could render better solutions without sacrificing environmental quality.¹

Researchers Robert W. Hahn, Randall W. Lutter, and W. Kip Viscusi hope for gains from a life-or-death perspective. The trio examined 24 health, safety and environmental regulations of the ’90s whose overwhelming purpose was to reduce the risk of mortality. Among their richly textured findings,

¹ David Schoenbrod, “State Regulators Have Had Enough of the EPA,” This Just In (Washington, D.C.: Cato Institute, 13 May 1997), from an article that originally appeared in the Wall Street Journal.
they observed “[i]n terms of their net effect on mortality, the EPA issued six of the worst eight and only two of the best eight” rules. The overall net effect of the agency’s rules came in at 97 lives lost.

Conclusion

Congress itself is the source of the problems created by regulations. Because it historically defers to agencies’ actions, regulatory impacts have become an increasingly discussed and contentious topic. Like any power center, agencies take ample advantage of gaps in authority sometimes left open by congressional intent. The Congressional Responsibility Act not only would assist in restoring accountability within the federal establishment, it would give Congress a tool to check agency action before substantial damage is done. It also would help return legislative power to Congress, a role otherwise too readily assumed by federal bureaucracies.

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Recommended Readings


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3 Ibid., 16, 17.
ENVIRONMENTAL AUDITS

While federal environmental statutes employ an outdated and inefficient command-and-control approach to environmental protection, states are taking the lead in creating and implementing innovative ways of improving air and water quality and protecting natural resources. One new approach involves incentives for companies to conduct environmental audits, a process of voluntarily investigating themselves for compliance with environmental laws and regulations and correcting any discovered violations. Unfortunately, federal regulators are reluctant to allow this successful experiment to continue and have even pursued policies to undermine state audit laws.

History

Since 1993, nearly half the states have enacted environmental audit statutes. These laws allow regulated entities to investigate (audit) their own operations for compliance with environmental regulations and proactively correct any violations. In exchange for putting the state on notice of any self-discovered problem and correcting it, the disclosing company is granted limited protections. The audit report becomes privileged information and/or the company is granted immunity against further punishment for the corrected problem. Without such protections, few companies, especially small businesses, would undertake environmental audits.

Success of State Environmental Audit Laws

Environmental audit laws have generated additional environmental cleanup activity without impeding enforcement of environmental laws. The result is a net plus for the environment. The protection for audit reports only extends to information above and beyond that required by the many disclosure requirements under federal and state laws. Since violations independently discovered by government or third parties are unprotected, audit laws complement ongoing enforcement efforts.

Claims that environmental audits let intentional wrongdoers “off the hook” or allow serious acts of pollution to go unpunished are unfounded. State audit laws do not protect deliberate violations of law or ones that pose a threat to human health or the environment. In fact, given the limited state and federal enforcement resources, environmental self-audits usually result in the discovery and resolution of violations that would not have otherwise come to light.

State legislators and environmental officials of both parties believe that audit laws benefit the environment. For example, Patti Shwayder, executive director of the Colorado Department of Public Health and Environment, believes that “we have learned about pollution problems we didn’t know

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2 Ibid., 7-8.
about and probably wouldn’t have known about” and that “companies are working with us to eliminate pollution that previously has not been identified or stopped.”

**Attack on State Audit Laws**

All but the weakest of these state audit laws have been opposed by EPA, the Department of Justice (DOJ), and most national environmental organizations. Audit laws may be good for the environment, but they are bad for the environmental bureaucrats in Washington. Audits shift the power and control away from Washington and toward the states, and replace red tape and litigation with a streamlined, results-oriented approach. In recent years, the EPA has tried to intimidate several states with audit statutes not to its liking, in some cases threatening to revoke federally delegated authority to implement parts of the Clean Air Act and Clean Water Act unless the laws are modified or repealed. In addition, EPA has discouraged the use of state audit statutes by initiating federal investigations of companies conducting audits under them.

**Punishing Good Actors**

Past EPA actions demonstrate the need to protect entities that audit, particularly small businesses. In 1997, Pete Bellini, owner of Pete’s Refrigeration in Bluefield, West Virginia, committed a very minor Clean Air Act violation while repairing some automobile air conditioners. Bellini corrected the problem at no extra charge to his customers and then informed the EPA of his error. His reward for coming clean was a fine of $4,250, quite high considering the trivial nature of the violation and the fact that the EPA would have never learned about it otherwise. Hundreds of thousands of business owners, both large and small, would like to work with the authorities to maximize their compliance, but are unlikely to do so unless they are protected against such overzealous enforcement. Audit laws provide the necessary protection.

**What Needs to Be Done**

To strengthen the protections for companies that conduct audits, Rep. Joel Hefley (R-Colo.) introduced H.R. 352, the Voluntary Environmental and Self-Evaluation Act. This bill would provide limited federal privilege and immunity to companies that conduct environmental audits meeting certain criteria. Congress should consider this approach to encouraging environmental audits.

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**Recommended Readings**

REGULATORY RIGHT TO KNOW

Much of what unfolds in the regulatory arena takes place without the public’s knowledge. Yet people know intuitively that regulations cost them one way or another. Although regulations assign costs by a different mechanism than taxes, the costs remain, nonetheless. Changing that status demands that the interested public know much more about how requirements handed down by federal agencies affect their personal bottom line. Only Congress can make that happen definitively.

Previous Efforts Ineffectual

Some efforts have been made. Most callings on agencies to follow new practices have been ineffectual, though. Outcomes showed them finding new ways to game the system to their advantage. For instance, Congress’ attempt to make government-sponsored research data accessible outside the government has hit a brick wall.

As a rule, such requirements have proved only as good as the people charged with implementing them. Congress, however, did pass the Congressional Review Act in 1996. For regulations about to go into effect, that law inserted a 60-day pause. The resulting window of time gives Congress a chance to vote down rules before sending its disapproval to the president for a signature or veto. But this legislative tool has been used only once.1

New Tools for Gaining Knowledge

Other tools could transmit knowledge and add perspective. One solid first step would involve consolidating the raft of scattered data and materials about regulatory activities into a well-known report like the president’s annual federal budget proposal. The Competitive Enterprise Institute provides a useful guide of what might be included.2

A quick look at two items in the box on the following page could be very informative. Simply weighing rules required by statute versus those resulting from an agency acting on its own discretion would help determine the extent of Congress’ responsibility for the regulatory burden.3 Such an exercise provides clear benefits — even to Congress. At a minimum, lawmakers could target those regulations borne of an excessive exercise of discretion.

Other organizational efforts could usher in a better sense of the government’s regulatory efforts. The Office of Management and Budget could contribute a great deal on its own. Reform might include:

• classifying and reporting major rules (those costing $100 million or more) along multiple class lines;

• separating “economic,” “social/environmental,” and “administrative” rules for purposes of reporting;

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3 Ibid., 7.
• acknowledging indirect costs, where possible; and

• recommending that certain rules be revised.4

Business’ Interest in Regulation

Because so many regulations take aim at businesses, the assumption goes that businesses oppose them as an article of faith. Such a premise fails to take account of the role regulation and regulators can assume as a competitive tool at business’ disposal.5 Any elementary regulatory history of public utilities recognizes that state regulators long ago put themselves in the position of guaranteeing profits to power plant operators.

A government-led approach also misses public health gains that can occur without the government. Recent developments in the private marketplace show how safety can serve as an important selling point. Take autos. For several years, cars have been sold with explicit boasts of safety features that seek to protect everything. Even OMB acknowledged in the mid 90s that businesses will compete to furnish health and safety features absent regulation.6

4 Ibid.
5 For a discussion of how 3M Pharmaceuticals played both regulations and regulators to gain an advantage in the marketplace for asthma inhalers, see “Let’ em Wheeze,” Investor’s Business Daily, 24 October 1997, A34.
George Orwell’s notion that some people are “more equal” than others carries weight with a group of scientists doing research with public funds. Researchers who win federal grants to investigate matters for Uncle Sam’s decision makers would like to keep their results as secret as possible.

A controversial Clean Air rule that EPA based on the results of a single study prompted congres-
sional reform. Neither the agency nor the scientists involved in the this particular Clean Air fight would release the crucial information that formed the basis for the rule. Both cited concerns about jeopardizing patient confidentiality.

As a result, new data access provisions (known as the Shelby Amendment) were written into law in late 1998. The main idea behind the measure was to permit public access to research results that furnish a justification for governmental policies and directives. The broader rationale, of course, seeks access for the very taxpayers footing the bill for scientists’ work.

However, true access to such scientific data still languishes in regulatory limbo. The Shelby Amendment instructed the Office of Management and Budget to draw up procedures by which federal agencies would comply with the new law. After a good start, the steps for federal agencies to comply took a turn for the worse. “[T]he new OMB proposal ignores the virtue of the previous version and guts entirely the intent of P.L. 105-277. It does so by giving sweeping exemptions to ‘research data,’” one interested party wrote.7

Such recalcitrance does harm to the concept of open exchange of scientific information.8 Federal regulations already carefully prescribe how and under what conditions federally supported research should proceed. The thought of not letting the public in on the results it has paid for means certain parties will enjoy “more equal” access to governmental processes than others.

Conclusion

Sound philosophical, yet commonsense, reasons exist for sharpening the focus of the U.S. regulatory picture. First and foremost, why should the most information-laden society on earth proceed in mystery about how well it’s safeguarding and sprucing up the world around us? Second, improving products and processes adds that much-needed dose of accountability under which our system of government flourishes. Finger-pointing between the legislative and executive branches might actually become a productive gesture. Finally, real improvements in regulatory policy strengthen policy makers motivated to squeeze the most from every dollar to keep the environment and ourselves in optimal health.

— CEI Staff

7 Jennifer Zambone, for the Competitive Enterprise Institute, Letter to F. James Charney, Office of Management and Budget, 10 September 1999, 1.
Following the many regulatory activities throughout the federal government is a daunting task, not only for the average American but for lawmakers as well. To facilitate a better understanding of regulatory activities and provide an opportunity for public input, the Mercatus Center (www.mercatus.org) has organized RegRadar.org. RegRadar is an education, research, and outreach organization that works with scholars, policy experts, and government officials to bridge academic theory and real-world practice.

This Website is dedicated to monitoring federal regulatory activity. It offers a central meeting place where academics, policy makers, interest groups, businesses, and concerned citizens can access easy-to-understand information about new and forthcoming regulations. The site includes facts on regulations by issue area, by federal agency, and by stage in the regulatory process. In addition, the site continues to inform visitors about regulations in the news and provides links to other Internet sites that provide information on regulations.

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Recommended Readings


