June 20, 2023

Richard L. Revesz
Administrator
Office of Information and Regulatory Affairs

Zachary Liscow
Associate Director for Economic Policy
Office of Management and Budget


Dear Administrator Revesz and Associate Director Liscow,

We the undersigned economists commend the Office of Information and Regulatory Affairs for proposing revisions to Circular A-4 and the Office of Management and Budget for proposing revisions to Circular A-94. If finalized, these would be long-overdue updates to the economic assumptions that undergird benefit-cost analysis across the federal executive branch, improving the information policymakers rely on to make key regulatory and spending decisions.

Both revised drafts would provide more extensive guidance to agencies than their preceding versions, including helpful examples, and are built to last beyond just this administration. Most importantly, they both are well-grounded in economic research, as evidenced by the numerous citations to peer-reviewed, academic papers.

While our view on some of the specifics may vary, we all agree that the existing Circulars A-4 and A-94 are out of date and that the proposed updates would bring the federal government’s benefit-cost methodology closer to the current, best available economic research and theory.

In particular, we commend OIRA and OMB for proposing the following key improvements:

- Updating the discount rate that federal agencies use to calculate benefits and costs that accrue in the future. Given the long-standing decline in real interest rates and market projections, this modification is well justified. In addition, the proposal appropriately recognizes various reasons to discount far future impacts at lower rates, including uncertainty in future economic conditions and the “special ethical considerations” that arise when estimating impacts on future generations.
● Providing more guidance to agencies on incorporating distributional analysis into decisions, including the flexibility to include equity considerations in benefit-cost analysis by using weights that account for the diminishing marginal utility of goods.

● Recognizing recent evidence that widespread market power and behavioral biases distort markets and must be accounted for to better determine when government should intervene to solve market failures and maximize true efficiency.

● Integrating transboundary effects in agencies’ analysis of global problems, which will allow for a more fulsome accounting of the national interest.

● Recommending the use of certainty-equivalent valuations to compare different possible outcomes, which recognize the well-established benefits of avoiding downside risks.

These and other improvements will lead to sounder economic analysis and, ultimately, better policymaking to serve the public interest.

Sincerely,

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