

beneficiaries of the recommended policies. The authors underline the importance of this assumption. Nevertheless, as they conclude, the results do not warrant enthusiastic support for either MITI-like policies in the U.S. for rescuing companies in distress, or for centrally planned investment.

The authors also point out that the Japanese model is appropriate for a young manufacturing economy, which still has a small share of world markets and therefore can easily set targets for development. An older economy cannot as easily direct investment into promising industries. Indeed, DRI concluded that Japan would have less success with its industrial policy now that its industries have matured and have large market shares.

Much of the book is taken up by an Appendix describing the changes in production, exports, and other aspects of performance of individual manufacturing industries since 1950. Also of interest is Chapter 2, which describes the decline of U.S. manufacturing. We learn that the office, service, and miscellaneous equipment industry contributed 10.1 percent of the growth of manufacturing output over the decade 1970-1972 to 1980-1982; chemical products contributed 10.5 percent; and foods and products 11.1 percent.

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Environmental policy under Reagan's Executive Order: The role of benefit-cost analysis.

Edited by V. KERRY SMITH. Urban and Regional Policy and Development Studies. Chapel Hill and London: University of North Carolina Press, 1984. Pp. xii, 266. \$25.00. ISBN 0-8078-1600-0. JEL 85-0272

In 1981 President Reagan issued Executive Order (E.O.) 12291, which greatly extended the role of economic analysis in the formation of regulatory policy. Although previous administrations had required analyses of proposed regulations and imposed guidelines under which such policies would be reviewed by the White House oversight group, E.O. 12291 required that any regulation issued both be ap-

proved by the Office of Management and Budget (OMB) and that it meet a benefit-cost test.

Recognizing the potential importance of this change, V. Kerry Smith organized a major conference in 1983 to address the performance of E.O. 12291 during its first two years. This timely and important volume is an outgrowth of that conference. The book is of primary interest because it represents an attempt by academic and government economists to address the proper role of economic analysis in environmental policy.

Kerry Smith's extensive Introduction addresses whether the requirement of a benefit-cost test is desirable. In addition to discussing the potential role of distributional concerns, he presents a detailed discussion of the difficulties involved in environmental benefit assessment. Rather than simply dismissing the feasibility of benefit calculations, he provides a thorough discussion of the uncertainties that affect different types of benefit-cost estimates. The cautionary warnings he provides are particularly convincing since they are based on years of experience in the development and application of benefit assessment techniques—including his own work in estimating water quality benefits.

The benefit-cost approach is certainly not new to environmental policy design. In his review of the history of environmental policy-making, Richard Andrews notes that a benefit-cost test has been applied for years to the water resource projects of the Army Corp of Engineers. The role of E.O. 12291 for environmental regulations is similar to the benefit-cost test that has long been required for water resource projects.

A chief official now responsible for the oversight of environmental regulations is OMB economist Arthur Fraas. In his contribution, Fraas concludes that overall the regulatory oversight process remains comparatively weak. OMB can delay the issuance of regulations, but it cannot unilaterally change the content of a regulatory proposal.

The practical task of providing a sound economic analysis of the benefits and costs of environmental policy is often not straightforward, as Ann Fisher of the EPA Benefits Staff observes. EPA often faces the twin uncertainties of not being able to assess the health impacts

of a regulation reliably as well as not being able to translate these health impacts into the dollar terms that are necessary for a formal benefit-cost test. These concerns are also raised in a paper by Carlisle Ford Runge. In a similar vein, A. Myrick Freeman investigates the practical techniques used in benefit estimation, exploring their theoretical underpinnings and the importance of linearity assumptions and other simplifications made in the practice of policy analysis.

The fundamental issue is whether or not agencies will perform sound benefit-cost analyses in practice and whether or not these will lead to better government policies. Although experience under the E.O. 12291 is short, there is already some evidence regarding the likely outcome. The paper by W. Norton Grubb, Dale Whittington, and Michael Humphries provides a review of all regulatory impact analyses prepared in 1981. Notwithstanding the agencies' aspirations to produce sound economic analyses, serious deficiencies remain. For example, a Department of Agriculture analysis of wheat trigger prices treated as a benefit the higher prices that farmers would receive, failing to recognize that such higher prices represent a transfer from consumers, not a net social benefit. Although the quality of the regulatory analysis is mixed, the preparation of an analysis of regulatory benefits and costs is now a routine part of agency operations—in principle an important development.

But the actual impact of the executive order is uncertain. Robert Crandall, a participant in the Ford Administration's regulatory oversight process, remains skeptical that a centralized oversight process can overcome the many other deficiencies of environmental policy. Crandall's skepticism stems from the constraints imposed by the narrow legislative mandates of many EPA policies and by the monitoring compliance system that EPA uses to enforce its regulations. The legislation in large part defines the agency's objectives in a particular area. For example, the Clean Air Act prohibits the consideration of costs when setting ambient air quality standards; this will consequently lead to an exemption from the provisions of E.O. 12291 regarding a benefit-cost test. Similarly, even if OMB were to ensure

that the structure of a regulation is sound, if the monitoring and enforcement of these regulations is not undertaken in an effective manner then the policy outcome will not be ideal.

Still, the explicit consideration of benefits and costs under E.O. 12291 may be desirable. Paul Portney estimates that the cost to government agencies and OMB of preparing and reviewing regulatory impact analyses is \$17 million—\$25 million annually. Since such analyses are required only of rules that will have a cost exceeding \$100 million or are selected for analysis by OMB, even a small impact on the efficiency of these policies may make regulatory oversight a desirable activity.

Unfortunately, as Portney observes, it is not feasible to ascertain the benefits the present regulatory oversight process is having or, more fundamentally, even to assess how policies have evolved during the negotiation process between OMB and the affected agencies. Unlike the oversight mechanisms of previous administrations, there is no element in the process to ensure that there is public awareness of the issues at stake.

In earlier administrations, the Council on Wage and Price Stability and the Regulatory Analysis Review Group prepared detailed economic analyses of the effectiveness of different regulatory proposals. These analyses were often published and many of them were quite innovative. Under the Reagan Administration, there is no such regular preparation of detailed analyses; nor are there regular public filings of the OMB comments. As a result, there is no way for external observers to ascertain what the initial regulatory proposals of the agency were or what considerations led OMB to seek changes. Thus, even if the promotion of policies based on their benefits and costs is the stated objective, there is no assurance that it is this objective that guides the OMB. Other objectives, such as cost minimization or minimization of the total number of pages of new regulations appearing in the Federal Register may be more prominent, and if this is the case then the doubts regarding the efficacy of E.O. 12291 will be even greater.

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