

Empirically Informed Regulation (with special reference to energy and the environment)

Stiftung Marktwirtschaft / Berlin

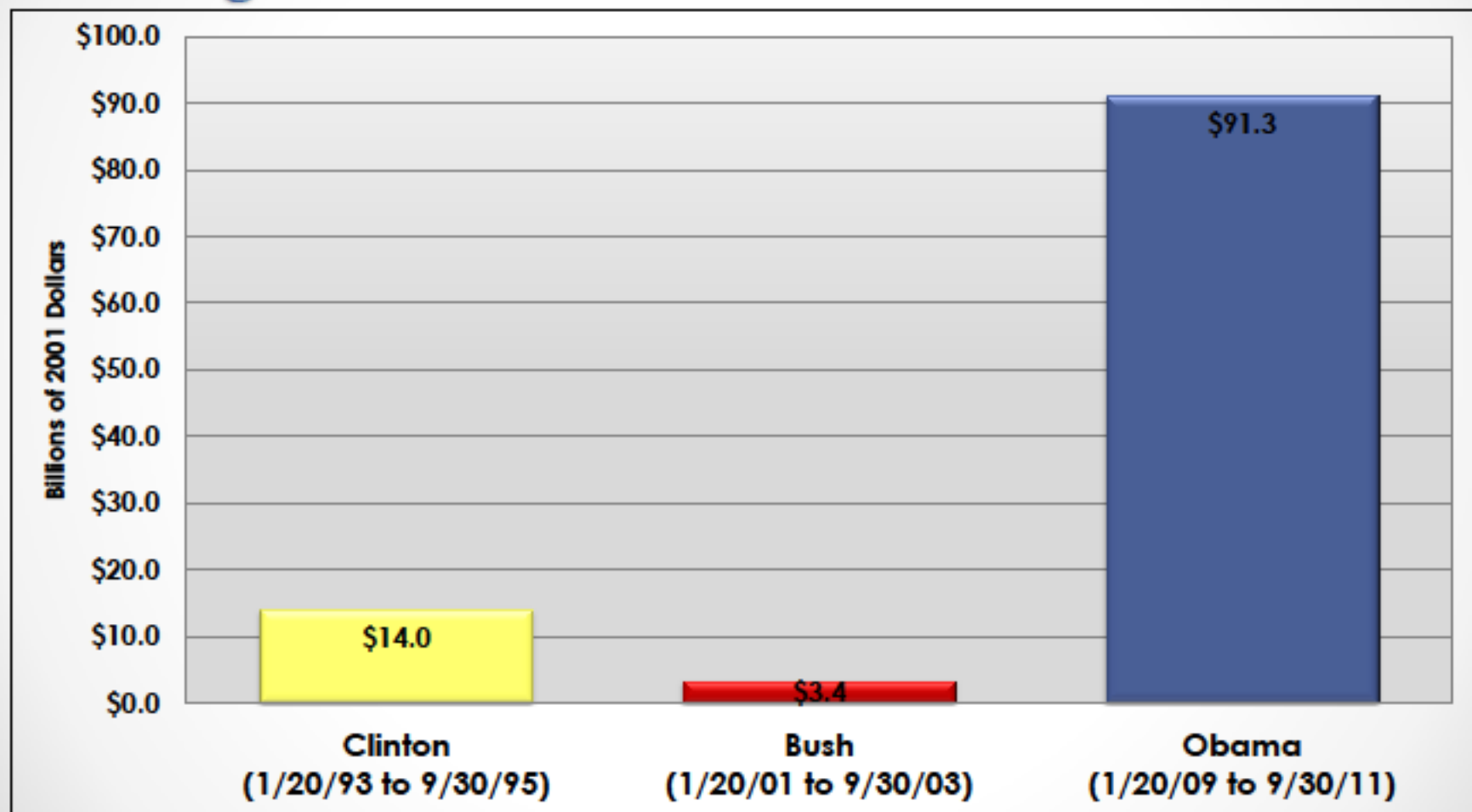
June 4th, 2013

Cass R. Sunstein

Harvard Law School

Administrator, White House Office of
Information and Regulatory Affairs, 2009-2012

“We’re Not Selling Jeans Here”: Total Annual Net Benefits of Major Rules through Third Fiscal Year of an Administration



What the Benefits Are

- The benefits include billions of dollars in savings for consumers
- They include thousands of lives saved and tens of thousands of illnesses and accidents prevented
- They include billions of dollars in economic savings for businesses.

Four Concepts

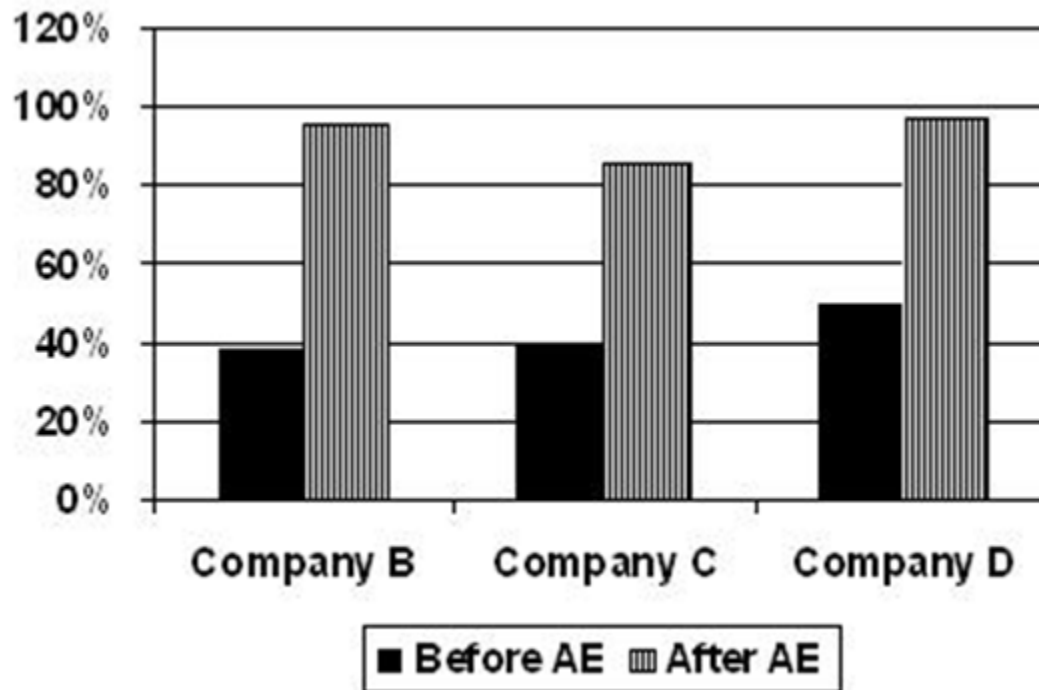
- Cost-Benefit Analysis (President Obama's direction; foreign language)
- Behavioral Market Failures (shrouded attributes, myopia, unrealistic optimism)
- Choice Architecture (the google cafeteria in New York)
- Libertarian Paternalism ("nudge")
 - GPS
 - Plate, not Pyramid
 - Fuel Economy Label
 - Cf. Fuel Economy Requirements

Choice Architecture vs. Standard Economic Tools

(three surprises?)

- Chetty et al.: Automatic enrollment has a **much** bigger effect than significant tax incentives (Denmark) (US Gov has responded)
- Opower: Home energy report has a bigger effect on energy use than significant price increases
- FAFSA simplification – effect equivalent to a several thousand dollar education subsidy (US Ed Dept has responded; cf. new ACA application)
- For environment, a challenge (and an **opportunity**): Standard economic tools and regulation face serious economic and political obstacles

Automatic Enrollment and Savings



Opt in vs. Opt out

- More people will stay in under “opt out,” even if transactions costs are very low, and hence default rules matter
- Examples: savings; health insurance; school meals; electronic rather than paper reporting and filing; privacy
- **President Obama on opt-out:**

“[W]e’re going to make it easier for small businesses to do what large businesses do: allow workers to automatically enroll in a 401(k) or an individual retirement account. We know that automatic enrollment has made a big difference in participation rates by making it simpler for workers to save – and that’s why we’re going to expand it to more people.”



Automatically Green? Evidence

Background: savings, insurance, organ donations, electronic paychecks, privacy, cf. "negative option marketing"

- 1) Rutgers University and the two-sided default
- 55 million sheets of paper saved
- 2) The German Paradox: two VERY green communities. Why?
- 3) Energy Efficient Products

Why Defaults Stick: 3 Factors

- Inertia (“effort tax”? – even when tax is low; “yeah, whatever”)
 - Cabs in NYC – 10 percent increase from touchscreens!
- Suggestion
 - Wrinkle 1: Low-income people (deferential or busy?)
 - Wrinkle 2: Automatic enrollment is suggestive whereas nonenrollment is not
- Loss Aversion
 - Golf (birdie vs. par)
 - Teachers
 - Environment/energy (conscience?)

Which Default? Without Externalities

- First cut: What people would choose if adequately informed (might be hard question, in fact and conceptually)
- Easy cases: Green energy costs less (and also reduces environmental harm)
- Hard cases: Costs a bit more but green (might need to know about views of relevant population)
- Majority rule
- Intensity of preferences

Which Default? With Externalities

- Cost-benefit test (EO 13563 again)
- Social cost of carbon (\$23 per ton)
- Cost of eg coal
- Circumstances for a mandate, not a default rule?
- But poor people, and may lack sufficient information or political will
- Distributional issues

Disclosure As Nudge: Old Fuel Economy Label

Compare this vehicle to others in the **FREE FUEL ECONOMY GUIDE** available at the dealer.

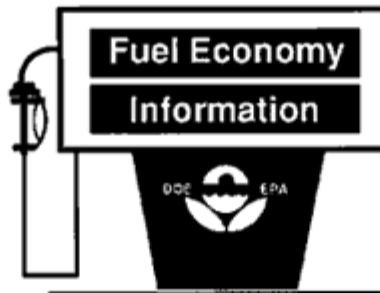
CITY MPG

23

Actual Mileage will vary with options, driving conditions, driving habits and vehicle's condition. Results reported to EPA indicate that the majority of vehicles with these estimates will achieve between

19 and 27 mpg in the city
and between

26 and 35 mpg on the
highway.



1993 CANARY 2.0 LITER
L4 ENGINE FUEL INJECTED
AUTO 3 SPD TRANS CATALYST
FEEDBACK FUEL SYSTEM

Estimated Annual Fuel Cost:

\$850

HIGHWAY MPG

30

For Comparison Shopping,
all vehicles classified as
COMPACT
have been issued mileage ratings
ranging from 11 to 31 mpg city
and 16 to 41 mpg highway.

New Fuel Economy Label

EPA
DOT

Fuel Economy and Environment



Gasoline Vehicle

Fuel Economy



26 MPG

combined city/hwy

22
city

32
highway

3.8 gallons per 100 miles

Small SUVs range from 16 to 32 MPG.
The best vehicle rates 99 MPGe.

You **save**
\$1,850

in fuel costs
over 5 years
compared to the
average new vehicle.

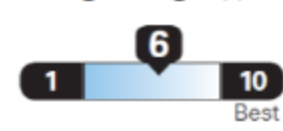
Annual fuel **cost**
\$2,150

Fuel Economy & Greenhouse Gas Rating (tailpipe only)



This vehicle emits 347 grams CO₂ per mile. The best emits 0 grams per mile (tailpipe only). Producing and distributing fuel also creates emissions; learn more at fuel economy.gov.

Smog Rating (tailpipe only)



Actual results will vary for many reasons, including driving conditions and how you drive and maintain your vehicle. The average new vehicle gets 22 MPG and costs \$12,600 to fuel over 5 years. Cost estimates are based on 15,000 miles per year at \$3.70 per gallon. MPGe is miles per gasoline gallon equivalent. Vehicle emissions are a significant cause of climate change and smog.

fuel economy.gov

Calculate personalized estimates and compare vehicles



Smartphone
QR Code™



Social Norms Are Nudges

- Energy use: levels decrease when people learn that they are spending more money than their neighbors
- In fact a Home Energy Report can produce larger savings than a big increase in the price of energy
- Increase in usage of seatbelts, prompted in part by changing social norms
- “Compliance without enforcement” in context of restrictions on cigarette smoking
- Let’s Move campaign: Walmart has committed to reformulating thousands of everyday packaged food items by 2015 by reducing sodium 25 percent and added sugars 10 percent, and by removing all remaining industrially produced trans fats.
- In a similar vein, a number of companies, including Kraft Foods, General Mills, Coca-Cola, Pepsi, and Kellogg, have pledged to remove 1.5 trillion calories from their products by 2015, in an effort to combat childhood obesity.
- Distracted driving initiatives
- Note: *Deaths on highway at lowest level in recorded history*

Regulations.gov



Your Voice in Federal Decision-Making

[Home](#)

[Help](#) ▾

[Resources](#) ▾

[Feedback and Questions](#)

 [Search](#)

 [Browse](#)

 [Learn](#)

Let Your Voice Be Heard

Regulations.gov is your source for U.S. government regulations and related documents. Here you can find, read and comment on documents. **Share your knowledge** and **make your voice count**.

SEARCH for: Rules, Comments, Adjudications or Supporting Documents:

[Search](#)

[» Advanced Search](#)

Coming Soon...

My Recent Searches



Regulations With
Comments Due Soon

[Today](#) (38)
[Next 3 Days](#) (69)
[Next 7 Days](#) (193)

Newly Posted Regulations

[Today](#) (126)
[Last 3 Days](#) (360)
[Last 7 Days](#) (590)
[Last 15 Days](#) (1,135)

Are you new to the site?

Click the links below to get started.

- [» How do I find a rule?](#)
- [» How do I submit a comment?](#)
- [» How do I find my comment?](#)
- [» Do my comments make a difference?](#)

[Regulations.gov Webinar](#)

[Regulations.gov Re-launch](#)

[President's Executive Order](#)



Data.gov

An Official Website of the United States Government

Friday, March 02, 2012

Text: A+ A- A S



SEARCH

HOME

DATA

APPS

COMMUNITY

METRICS

OPEN DATA SITES

GALLERY

WHAT'S NEW

Visit the new
**Education
Community**



Latest Datasets

- Large Truck Crash Causation Study (LTCCS) -...
- Large Truck Crash Causation Study (LTCCS) -...
- Large Truck Crash Causation Study (LTCCS) -...
- Large Truck Crash Causation Study (LTCCS) -...
- Motor Carrier Registrations - Census File...
- Motor Carrier Registrations - Census File...
- Pipeline Incident Data - Natural Gas...
- Pipeline Incident Data - Natural Gas...
- Pipeline Incident Data - Natural Gas...
- Pipeline Incident Data - Natural Gas...

Smart Disclosure is Simpler

- Basic idea: disclose information in machine-readable formats
- Energy use
- Utility and electricity suppliers across the United States have committed to provide more than 15 million households with access to data about their own energy use with an online “Green Button,” which will enable homeowners and building owners to make better decisions
- The UK as well
-

Simpler: Regulatory Lookback

Executive Order 13563, Sec. 6(b)

“Within 120 days of the date of this order, each agency shall develop and submit to the Office of Information and Regulatory Affairs a preliminary plan . . . under which the agency will periodically review its existing significant regulations to determine whether any such regulations should be modified, streamlined, expanded, or repealed”

Lookback Results

- Over two dozen agencies have released reform plans, including over 500 initiatives. The release was preceded by public comment.
- A small fraction of those initiatives, already finalized or formally proposed to the public, will **save billions of dollars in the near future**.
- The Environmental Protection Agency has joined in eliminating requirements that will produce savings of **in excess of \$10 billion**.
- Over 100 million hours of paperwork burdens are going or gone.