

Should federal regulatory benefit-cost analysis (BCA) include benefits realized by residents of other nations? When it comes to valuing the effects of climate change, the federal government has recently decided that it should. A [May 2013 technical update](#) of an interagency working group established a revised range of values agencies are expected to use for the social cost of carbon (SCC) in regulatory analyses. Based on the working group's [earlier guidance](#) on this subject, the Environmental Protection Agency's (EPA) analysis of [greenhouse gas and fuel economy standards for 2017](#) and later cars and light duty trucks includes \$126 billion in benefits, primarily carbon reductions, less than a quarter of which are domestic benefits.

Whether this is justified and proper is an interesting question. On the one hand, it contradicts the guidance of [OMB Circular A-4](#), which governs regulatory analysis and makes clear: "Your analysis should focus on benefits and costs that accrue to residents of the United States." Nationalism in BCA is perfectly reasonable. The national government protects the interests of U.S. citizens, who pay most of the taxes or bear costs of regulatory mandates. Authorizing legislation generally focuses on domestic impacts. For example, the [Clean Air Act's](#) stated purpose is "to protect and enhance the quality of the Nation's air resources so as to promote the public health and welfare and the productive capacity of its population." A national focus also reflects a prudent division of labor: the EPA is not tasked with providing foreign aid, and a regulation yielding predominantly international benefits is best considered foreign aid.

On the other hand, as the interagency SCC technical report points out, OMB Circular A-4 does not prohibit inclusion of international benefits. Text books instruct students of BCA to include benefits and costs to whomsoever they accrue, and third party benefits are genuine benefits. Environmental regulations explicitly address negative externalities, or costs which spill over to third parties. As the SCC technical report emphasizes, "emissions of most greenhouse gases contribute to damage around the world even when they are emitted in the United States." Reducing the costs of pollution from the U.S. to other nations is a benefit of U.S. environmental regulation.

A tension certainly exists between national self-interest and including international benefits in government policy-making. America's national defense probably should never be guided by the goal of maximizing global well-being. The most important function of national government is protection against foreign threats, and this clearly considers Americans more important than others, at least others seeking to harm Americans. The treatment of international benefits in BCA is really a manifestation of the larger question of whether a government should be compelled to consider the welfare of nonresidents, or should consider only their constituents.



Valid arguments can be made both for and against including international benefits in BCA, or including international benefits but at less than par with domestic benefits. Unfortunately, that discussion hasn't happened. Unlike Circular A-4, which benefited from both peer review and broad public notice and comment, the government's technical support documents on the SCC were presented as faits accomplis without external review or the opportunity for comment. The inclusion of international benefits should at a minimum be more transparent. The EPA's automobile carbon emissions analysis nowhere explicitly notes that the total of \$126 billion includes international benefits. Readers would need to consult the SCC technical report to discover this.

The Obama Administration has promised "[an unprecedented level of openness in Government](#), [based on] a system of transparency, public participation, and collaboration." It has also committed to making information available in "forms that the public can readily find and use." Making decisions as significant as the social cost of carbon without public participation and collaboration, and hiding the international component of benefits in a supporting technical document undermines the spirit of these commitments.

