This commentary highlights ten important final rules U.S. federal agencies issued in 2014. Although the agencies predict each rule will offer substantial public benefits, each rule also has considerable expected costs, some of which outweigh the benefits.

1. THE ‘VOLCKER RULE’

**Office of the Comptroller of the Currency, Federal Reserve, Federal Deposit Insurance Corporation, Securities and Exchange Commission**

*Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, Relationships With, Hedge Funds and Private Equity Funds*

The Comptroller of the Currency, Federal Reserve, FDIC, and SEC’s final rule implements key elements of the 2010 *Dodd-Frank* law. The Agencies intend for the rule to “help both the banking entities and the Agencies identify, monitor, and limit risks,” particularly for the banks that pose “the greatest risk to financial stability.” The rule does so by banning banks from speculating with their own funds, with certain exceptions. It also severely limits a bank’s ability to own or have an interest in hedge funds and private equity funds. Since bank deposits are FDIC-insured, the Agencies believe that they can protect taxpayers by curbing risk-taking. However, critics of the rule argue it may increase the cost of capital and make markets more illiquid. The Agencies do not monetize the qualitative benefits of increased stability and decreased risk, but the Comptroller of the Currency estimates costs—including decreased demand for covered funds as well increases in banks’ compliance costs—to be between $410 million to $4.3 billion.

2. REGULATING THE DISPOSAL OF COAL ASH

**Environmental Protection Agency**

*Hazardous and Solid Waste Management System; Disposal of Coal Combustion Residuals From Electric Utilities*

In addition to generating electricity, plants that burn coal produce coal combustion residuals, or coal ash, which is typically disposed of in landfills and storage ponds. This EPA final rule establishes requirements for how both existing and new power plants must dispose of coal ash. For example, disposal sites must incorporate various new “design criteria” and “structural
integrity requirements” intended to prevent leaks and failures. They must also follow strict and frequent assessment and monitoring standards as well as develop emergency action plans. The estimated monetized “future human health and environmental benefits” over a 100-year period are $8.6 billion, but the total monetized costs over the same period are $23 billion. In other words, the Agency expects the rule to have net costs of over $14 billion for utilities, power plants, and consumers.

3. HIGHER EMISSION AND FUEL STANDARDS (TIER 3)

Environmental Protection Agency

Control of Air Pollution From Motor Vehicles: Tier 3 Motor Vehicle Emission and Fuel Standards

EPA’s new Tier 3 motor vehicle standards attempt to reduce air pollution from passenger vehicles in two ways: controlling emissions and lowering the amount of sulfur in gasoline. The rule affects groups ranging from gasoline refineries, fuel converters and fuel distributors to vehicle manufacturers. Similar previous standards from the year 2000, called Tier 2, also treated vehicles and fuels as a single system and reduced gasoline sulfur content by 90%. The new Tier 3 standards, though, require the sulfur content to be three times lower by January 2017. EPA estimates total annual benefits for the year 2030 of between $7.4 billion and $19 billion, all from decreased ozone and particulate matter. Total estimated annual costs for 2030 from both the vehicle and fuels program are $1.5 billion.

4. REARVIEW CAMERAS REQUIRED FOR NEW CARS

National Highway Traffic Safety Administration

Federal Motor Vehicle Safety Standards; Rear Visibility

The National Highway Traffic Safety Association’s final rule intends to “reduce backover crashes” involving children, the disabled, and other pedestrians. It requires all new cars manufactured after 2018 to allow the driver to see a 200 square-foot region directly behind the car. Today—and for the foreseeable future—NHTSA expects manufacturers to use “rearview video systems and in-vehicle visual displays” to satisfy the rule’s requirements. In 2012, 263 people died and over 15,000 were injured due to backover accidents. NHTSA expects that implementing this rule will prevent about 30% of these accidents. The total monetized benefits of avoided premature death and property damage are between $270-600 million, but these will not be fully realized until 2054. The total expected monetized costs, ranging from $550-920 million, far exceed the expected benefits.
5. MINIMUM WAGE ESTABLISHED FOR FEDERAL CONTRACTORS

Department of Labor

Establishing a Minimum Wage for Contractors

Following President Obama’s February executive order, this Department of Labor rule instructs federal agencies to pay contractors no less than $10.10 per hour effective January 1, 2015. The Department estimates that about 180,000—or 21 percent—of all federal contractors made less than $10.10 per hour in 2013. Many of these contractors work in waste management, administrative services, education, and construction. President Obama’s executive order stated that the government’s “interests in economy and efficiency” are promoted when the government “adequately compensates workers.” DOL states that the rule will promote efficiency and cost savings in the relevant work areas. Because the rule applies only to future contracts, estimated annual costs for 2015 are close to $100 million; by 2019, though, this figure rises to $500 million. The rule’s qualitative benefits include “reduced absenteeism and turnover in the workplace, improved employee morale and productivity, reduced supervisory costs, and increased quality of government services.” Read our comment on the minimum wage rule here.

6. REQUIRING ‘GAINFUL EMPLOYMENT’ FOR STUDENTS

Department of Education

Program Integrity: Gainful Employment

Intending to improve outcomes for higher education graduates, the Education Department’s “Gainful Employment” rule establishes career training standards for schools wishing to continue receiving federal student aid through title IV of the Higher Education Act of 1965. The rule treats students as consumers and is intended to protect them from fraud or abuse from higher education institutions, particularly for-profit schools. According to the rule, a school fails to prepare its students for gainful employment if graduates’ total incomes are not 12.5 times more, and discretionary incomes 5 times more, than their annual loan payments. The Department does not quantify the benefits of better quality of information about schools and better return on money spent on education. The expected costs, however, of educating students at transfer schools and complying with paperwork requirements range from $420-430 million. Read our comment on the gainful employment rule here.
7-10. FOUR NEW ENERGY CONSERVATION STANDARDS FOR COMMERCIAL EQUIPMENT

Department of Energy

The Department of Energy issued four major energy efficiency regulations for commercial and industrial equipment this year, all stemming from the Energy Policy and Conservation Act of 1975. In these rules, DOE regulates energy efficiency standards for walk-in coolers and freezers, commercial electric motors, commercial refrigeration equipment, and metal halide lamps in ways that are “technologically feasible and economically justified.” In each case, a majority of the benefits are private benefits from operating cost savings, which some critics argue do not provide an actual benefit to consumers. The public benefits from emissions reductions, on the other hand, are relatively small. Below are statistics for expected costs and benefits for each of the four final rules.

<table>
<thead>
<tr>
<th>Rule</th>
<th>Operating cost savings</th>
<th>Emission reduction savings</th>
<th>Equipment and installation costs</th>
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</thead>
<tbody>
<tr>
<td>7. Walk-in coolers and freezers</td>
<td>$19.7 billion</td>
<td>$5.7 billion</td>
<td>$9.8 billion</td>
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<tr>
<td>8. Commercial electric motors</td>
<td>$41.4 billion</td>
<td>$13.1 billion</td>
<td>$12.5 billion</td>
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<tr>
<td>9. Commercial refrigeration equipment</td>
<td>$16.6 billion</td>
<td>$4.7 billion</td>
<td>$4.9 billion</td>
</tr>
<tr>
<td>10. Metal halide lamps</td>
<td>$1.6 billion</td>
<td>$719 million</td>
<td>$720 million</td>
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As one of our studies finds, a substantial amount of the monetized benefits from emissions reductions actually accrue to foreign countries. Only 7 – 23% of the benefits of reducing carbon dioxide emissions are domestic, which significantly reduces the overall benefits of the energy efficiency rules calculated by DOE.