

EXECUTIVE OFFICE OF THE PRESIDENT  
COUNCIL ON ENVIRONMENTAL QUALITY  
722 JACKSON PLACE, N. W.  
WASHINGTON, D. C. 20006

*I agree*  
*J*

September 18, 1978

*Schultze disagrees;  
he points out misleading  
comments about the  
numbers presented in  
the Chase study, and  
he discusses the negative  
effect of Environmental  
and Health regulations on  
productivity.*

MEMORANDUM FOR THE PRESIDENT

FROM: Charles Warren  
Gus Speth

*Speth*

SUBJECT: Inflation and Environmental and Health Regulations

We wish to offer you any assistance we can in developing strong and effective initiatives against inflation. One issue of particular interest to us, since it has been raised by business leaders and some Administration officials involved with inflation, is the relationship between inflation and environmental and health regulations. We understand that the Chamber of Commerce and the NAM may raise this issue when they meet with you. We have investigated the issue and believe you will want to consider the following points in determining the future course of Administration anti-inflation policy:

- The only comprehensive quantitative analysis of the relationship between inflation and environmental regulations was performed by Chase Econometrics, and it concludes that these regulations do not contribute substantially to inflation. For the period 1970-83, the study indicates that federal air and water pollution control requirements will cause an average annual increase in the consumer price index of between 0.3% and 0.4%. Thus, any realistic relaxation of these programs would produce no significant reduction in the overall CPI. If the inflationary impact of these requirements could be reduced by 20% -- a substantial relaxation -- the CPI's increase would be restrained 0.1%. The net effect of a major relaxation could be the difference between a 8.0% and a 8.1% increase in the CPI.

- The total benefits of environmental and health regulations are difficult to quantify, but there is no question that they are very large: improved public health, reduced property damage, increased agricultural and resource yields and enhanced recreation and enjoyment of leisure time. The public perceives these benefits as well worth the costs: a recent national poll indicated that 62% of the public would be willing to pay higher prices to reduce pollution, compared with only 18% who would favor lower prices at the expense of more pollution.

- The political costs of making environmental and health regulations an anti-inflation target are high. An August 3 letter to you from a large coalition of labor and environmental groups stated that

the regulatory review program of CEA and COWPS "has become a serious threat to the millions of Americans who identify with the environmental, labor, and consumer protection movements. We believe that the program is undermining your support with many of those who have been your strongest supporters."

° Major corporations are currently pursuing a sophisticated media campaign aimed at making "government regulation" a pejorative phrase. It is too early to tell whether this and related efforts will pose a major threat to the framework of public interest regulation that has been painstakingly built over the past two decades. Regardless, Administration regulatory reform and anti-inflation efforts should not inadvertently contribute to turning public sentiment against government regulation generally.

In sum, we think there is little to gain and much to lose by cutting back on environmental and health controls for the sake of inflation. Agency efforts to eliminate unnecessary red tape and to avoid over-regulation should continue, and EPA's recent efforts can serve as a model in this regard. Administration regulatory review efforts should focus more on ferreting out old regulations that are anti-competitive or no longer serve a useful purpose and much less on new regulatory proposals in the health and environmental areas.