**Essay: Benefit-Cost Analysis: Promise and Pitfall, Morality and Methodology**

Length: 4 pages, 1.5 spacing

Suppose that you have been asked by Executive Branch of the U.S. government to write a position paper on the appropriate use of benefit-cost analysis for regulatory decision-making in the realm of environmental protection and natural resource management. Such decisions include whether existing regulations should be removed, whether new regulations should be adopted and to what degree we should make costly sacrifices in order to protect the environment.

* What is the justification for using the output from a BCA as a public policy decision tool? What is the ideal role for BCA? When should it play a leading role? When should it play a subordinate role? When should BCA be prohibited from consideration? What general principles are there for determining these thresholds?
  + If you see limitations to the applicability of BCA, to what degree are they limitations of methodology versus morality?
  + For cases in which you argue that BCA is not appropriate, what alternative framework should take its place? How do we then realistically and pragmatically set priorities? (See e.g. discussion of the precautionary principle below.)
* BCA entails a process of valuation which aims to assess and aggregate individual willingness-to-pay for a gain in environmental quality or avoid a loss otherwise already “in the pipeline”. (Valuation can also entail assessing the willingness-to-accept a loss in environmental quality that would otherwise not occur.) Provide guidance on the limits to this process. Are there some environmental goods that should simply not be valued like a commodity? When is a market-based approach to valuation acceptable? In the words of Michael Sandel, “(A)re there certain virtues and higher goods that markets do not honor and money cannot buy?” (Sandel, 2009, p. 102). When does such market-oriented valuation corrupt or degrade traditional or alternative norms governing the environment?

*Make sure that any critique is clearly identified as either a methodological or moral concern.*

As usual:

* You are welcome to customize the topic (and approach) to fit your interests. Feel free to pursue any moderate variation on the questions above. If you want to go further afield in topic or approach, please coordinate with me by email.
* Make sure that you have a strong **thesis** and that it is supported by logical argument and/or reference material.
* Make sure to move beyond the provided references and avoid simply summarizing others’ arguments.

**Motivational quotes:**

1. In reality:
   1. “Some environmental laws in the United States explicitly prohibit the use of benefit-cost analysis in some areas of environmental policy” (K&O, 237).
   2. “Over the years, Congress has sent mixed signals regarding the use of benefit–cost analysis in policy evaluation. Some statutes actually require the use of benefit–cost analysis,61 whereas others have been interpreted to effectively preclude the consideration of benefits and costs in the development of certain regulations.62” (Revesz and Stavins, 2007, p. 528).
2. “Although formal benefit-cost analysis should not be viewed as either necessary or sufficient for designing sensible public policy, it can provide an exceptionally useful framework for consistently organizing disparate information, and in this way, it can greatly improve the process and, hence, the outcome of policy analysis.” -Arrow et al. (1996)
3. "In this approach [of assigning dollar values to human life, human health, and nature itself] formal cost-benefit analysis often hurts more than it helps: it muddies rather than clarifies fundamental clashes about values. … [E]conomic theory gives us opaque and technical reasons to do the obviously wrong thing." -Ackerman and Heinzerling (2004)
4. “Of course it is difficult and uncomfortable to assign monetary values to human lives or to risks of death. Many people find the very idea preposterous. But whenever government decides how much to reduce risks, it is implicitly assigning such values. … Any regulator will acknowledge that at some point the cost of additional risk reduction is just too high. Why not be honest about that? Ackerman and Heinzerling cannot really deny that the current system of regulation does show inexplicable and apparently unjustified patterns -- large sums devoted to small risks, small sums devoted to large risks. The government's decisions will be far more transparent to the public, and far more consistent, if the government says how much it is willing to pay to prevent a risk of death. There is little to be said for hiding the ball. …. Ackerman and Heinzerling would prefer to replace cost-benefit analysis with a European-style precautionary principle. But in many contexts, that principle is worse than unhelpful; it is utterly incoherent.” -Sunstein (2004)
5. *Here Sunstein is summarizing Ackerman and Heinzerling:* “Bans on whaling, for example, are rooted in a widely shared ethical judgment, not in cost-benefit analysis. A democracy should base its decisions about the protection of nature on such ethical judgments, rather than by aggregating people's willingness to pay.” -Sunstein (2004)
6. “Treating (some things) as commodities degrades them, or fails to value them properly. … Certain modes of valuation are appropriate to certain goods and practices. … (Some would argue that it’s) a mistake to treat all things as if they were commodities. It would be wrong for example to treat human beings as commodities, mere things to be bought and sold. That’s because human beings are persons worthy of respect, not objects to be used. Respect and use are two different modes of valuation.” -Sandel (2009, p. 96).

**Potentially useful references:**

Ackerman, F. & Heinzerling, L. (2004) Priceless: On knowing the price of everything and the value of nothing. The New Press.

Adler, M.D. and E.A. Posner, eds. (2001), Cost-Benefit Analysis: Legal, Economic and Philosophical Perspectives (University of Chicago Press, Chicago, IL).

Averill, Merilyn (2003). Arsenic in Drinking Water, Kennedy School of Government at Harvard University case study, available on-line, <http://www.ksgcase.harvard.edu/casetitle.asp?caseNo=1680.0>.

Gowdy, J. (2004). [The Revolution in Welfare Economics and its Implications for Environmental Valuation and Policy](http://le.uwpress.org/cgi/content/abstract/80/2/239). *Land Economics* 80:2, 239-257.

Kelman, Steven, “Cost-Benefit Analysis: An Ethical Critique,” AEI Journal on Government and Society Regulation, Jan/Feb. 1981, 33-40.

Kenneth J. Arrow, Maureen Cropper, George C. Eads, Robert W. Hahn, Lester B. Lave, Roger G. Noll, Paul R. Portney, Milton Russell, Richard Schmalensee, V. Kerry Smith, and Robert N. Stavins, "[Is There a Role for Benefit-Cost Analysis in Environmental, Health, and Safety Regulation?](http://journals.cambridge.org/action/displayFulltext?type=1&fid=69567&jid=&volumeId=&issueId=02&aid=69566)" Science12 April 1996: Vol. 272. no. 5259, pp. 221 – 222. [NOTE: This version is a reprint from Environment and Development Economics 2 (1997): 196–201].

Farrow, Scott and Michael Toman. (1999). "[Using Environmental Benefit-Cost Analysis to Improve Government Performance](http://ageconsearch.umn.edu/bitstream/10598/1/dp990011.pdf)," *Environment* 41, 12–37.

[Executive Order 12866, Regulatory Planning and Review](http://www.archives.gov/federal-register/executive-orders/pdf/12866.pdf), Federal Register page 58 FR 51735, October 4, 1993. {*Reading emphasis: introduction, Section 1 and Section 6. Clinton administration executive order regarding use of CBA in assessing Federal regulations; kept in place (though amended) by administration of G.W. Bush; kept in place by Obama administration which rescinded Bush amendments. For electronic text of EO’s see* [*Executive Orders Disposition Tables*](http://www.archives.gov/federal-register/executive-orders/disposition.html)*.*}

Judis, J. 2010. “[The Quiet Revolution](http://www.tnr.com/article/politics/the-quiet-revolution?page=0,2).” The New Republic. Feb 1, 2010.

Robert W. Hahn and Patrick M. Dudley (2007). [How Well Does the U.S. Government Do Benefit-Cost Analysis?](http://reep.oxfordjournals.org/cgi/content/full/1/2/192) *Rev Environ Econ Policy* 1, 192-211.

Revesz RL, Stavins RN (2007) [Environmental law](http://www.sciencedirect.com/science?_ob=MImg&_imagekey=B7P5W-4R2PJJP-D-1&_cdi=24613&_user=4421&_pii=S1574073007010080&_orig=browse&_coverDate=12%2F31%2F2007&_sk=999989999&view=c&wchp=dGLbVzb-zSkzk&md5=54621c2ca6d633c1fbb1d93c2daf1e95&ie=/sdarticle.pdf). In: Mitchell Polinsky A, Shavell S (eds) *Handbook of law and economics*. Elsevier Science, Amesterdam, pp 499-589. {*Specifically section 2.2.*}

Sandel, M. (2009). *Justice: What’s the right thing to do?* Farrar, Straus and Giroux, New York.

Sunstein, C. (2004) [Your Money or Your Life](http://www.tnr.com/article/books-and-arts/your-money-or-your-life). *The New Republic*, Mar 15, 2004. {*A review of Ackerman and Heinzerling (2004).*}