



“Summary of selections from article by James T. Campen: Benefit, Cost, and Beyond” in Frontier Issues in Economic Thought, Volume 3: Human Well-Being and Economic Goals. Island Press: Washington DC, 1997. pp. 161-164

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### **“Summary of selections from article by James T. Campen: Benefit, Cost, and Beyond”**

The progressive potential of BCA [benefit-cost analysis] lies in two of its basic features. The first is its nature as a means of systematically using organized human rationality to identify and evaluate the consequences of proposed collective decisions. The second is its orientation toward valuing all benefits and costs, whether or not they enter into the financial calculations of individuals or firms -- that is, its concern with "social" rather than merely "private" benefits and costs. (185)

Critics of conventional economics often suggest that cost-benefit analysis is biased against or incapable of adequate representation of nonmarket values. In contrast, the work summarized here argues that benefit-cost analysis (the term preferred by the author), or BCA, if done properly, is an indispensable part of rational collective decision-making, and can make an important contribution to a strategy for progressive economic change. This summary draws on portions of chapters 5, 9, and 10 of a book-length treatment of the politics and economics of BCA.

### **EVALUATING THE BCA DEBATE**

Extreme interpretations of BCA have given rise to extreme conclusions: If it means nothing more than systematic thought about the consequences of policy alternatives, who could oppose it? If it is a rigid quantitative rule for mechanically making policy decisions, who could support it? As understood here, BCA produces a single quantitative measure of net benefits expressed in monetary terms, accompanied by descriptive analysis. This result should be used as one of the inputs into a decision-making process; it is a tool rather than a rule.

The quantitative results of BCA contribute to the public interest both by providing helpful information and by allowing increased accountability of decision-makers. When dominant political interests have a strong policy preference, no objective analysis will lead to a different outcome; BCA is more likely to make a difference when powerful forces are divided, or are not firmly committed to a single alternative.

Most of the objections from liberal critics concern misuse of BCA, not the appropriateness of the technique itself -- as several of the critics acknowledge. In fact, BCA is explicitly designed for cases where private markets are failing. It was first widely used in flood control projects during the New Deal, and gained increased prominence as part of the reform agenda of the Kennedy and Johnson administrations in the 1960s. If liberals are right about the prevalence of market failure,

they should welcome the opportunity to calculate nonmarket costs and incorporate them in the decision-making process.

BCA does not inevitably have liberal implications; it is essential for the analysis to be done in a way that invites public overview and participation, and makes underlying assumptions explicit. Otherwise, it may drive the politics deeper into the technical analysis, hiding real choices from public view. BCA may not be appropriate when intangible effects such as health, safety, and environmental impacts are of central importance; in such cases it may create a false sense that these intangibles can be quantified. In general, if the analysis cannot be done well -- if political and bureaucratic constraints prevent the adoption of an open, unbiased approach -- it may not be worth doing at all.

## **SOCIAL CHANGE AND THE FUTURE OF BCA**

All public policy-making takes places within an arena of conflict and struggle. However, BCA, as a tool for policy-makers, offers a formal, ostensibly impartial and objective technique for evaluating proposed alternatives. It tends to favor general over particular interests, and to draw attention to the assumptions and procedures used to reach decisions. The dominant political group of any era naturally tries to adapt BCA to its purposes -- though often with less than complete success.

For example, in the 1980s the Reagan administration set out to reduce the government's economic role, cutting taxes, civilian spending, and regulations wherever possible. BCAs with carefully manipulated assumptions provided intellectual support for this political objective. Similarly, in an earlier period the Army Corps of Engineers manipulated the assumptions underlying analyses of proposed water projects, in order to show that more dams and canals should be built. In both cases the biases were so obvious and pervasive that many outside observers objected to the studies. Of course, the Corps of Engineers built a lot of dams, and the Reagan administration made many cutbacks. But it seems unlikely that the existence of rigged BCAs advanced the dominant political agenda in either case. More often it was counterproductive, calling critical attention to the details of the policy-making process.

The use of BCA to promote a conservative political strategy is limited by the methodological presumptions that everyone's interests should be considered, and that government intervention is an appropriate response to market failure. BCA thus allows attention to be focused in a direction that most conservatives would prefer to ignore.

## **TOWARD A PARTICIPATORY ALTERNATIVE**

Defenders of existing BCAs argue that their critics are unable to offer a superior alternative. But a participatory mode of analysis of public policy would be far better than current practice. It would extend the mainstream paradigm in three directions: toward a more inclusive objective function, a process of dialogue and mutual learning, and an egalitarian set of social relationships. Many of the current analytical techniques would continue to be used, but in a different context, in the pursuit of different ends.

The objective function -- the quantity which is to be maximized in a BCA -- conventionally includes only a subset of the welfare-relevant consequences of policy proposals. Within the realm of satisfying existing individual preferences, it should be extended to include such "noneconomic" consequences as the changes in people's productive activities and social relations, and the ecological, aesthetic, and ethical impacts that would result from proposed policies. In addition, the policy evaluation process ought to be concerned with the effects of public decisions on personal development, and on political processes and power relationships.

It is problematical to rest evaluation of social outcomes solely on the satisfaction of expressed individual preferences, as many theorists have noted. A better alternative is to transform, rather than simply reject, individual measures such as the willingness to pay criterion. A process of dialogue and learning may lead to a deeper understanding of our true preferences and interests, involving interactions both with people who possess expert knowledge, and with the full range of people affected by the proposed decision. The need for dialogue and learning applies to everyone, including economists and others who consider themselves experts, as well as ordinary citizens. This approach to policy analysis is analogous to Paolo Freire's philosophy of education, which calls for a dialogue between teacher and student about their views of the world.

Finally, current BCA practice rests on unequal, nonparticipatory social relationships, in which "rationality" and expertise are used to exclude many of the affected parties from the decision-making process. In a participatory alternative, the people most directly affected by policy proposals would be actively involved in the analysis. "The process of participation is itself a welfare-relevant activity, and it can also contribute to the individual development of those who are involved." (199) Citizen participation requires a reorientation of the role of experts toward clarifying and explaining their work, rather than presenting it in obscure technical formats that confuse and intimidate outsiders. Those most affected by policy proposals may have to learn some of the expert analytical techniques in order to be effective participants. To secure the social relations of participation, it is necessary to change the structures of power and accountability so that analysts and decision-makers are directly responsible to the population whose lives they affect.

These sweeping changes can only be realized as part of a broader movement toward economic democracy and egalitarianism. However, such a movement should not reject BCA techniques because of past abuses. Rather, it should develop new techniques of participatory, collective analysis as a central part of its approach to decision-making.