

The Limits of Cost-Benefit Analysis

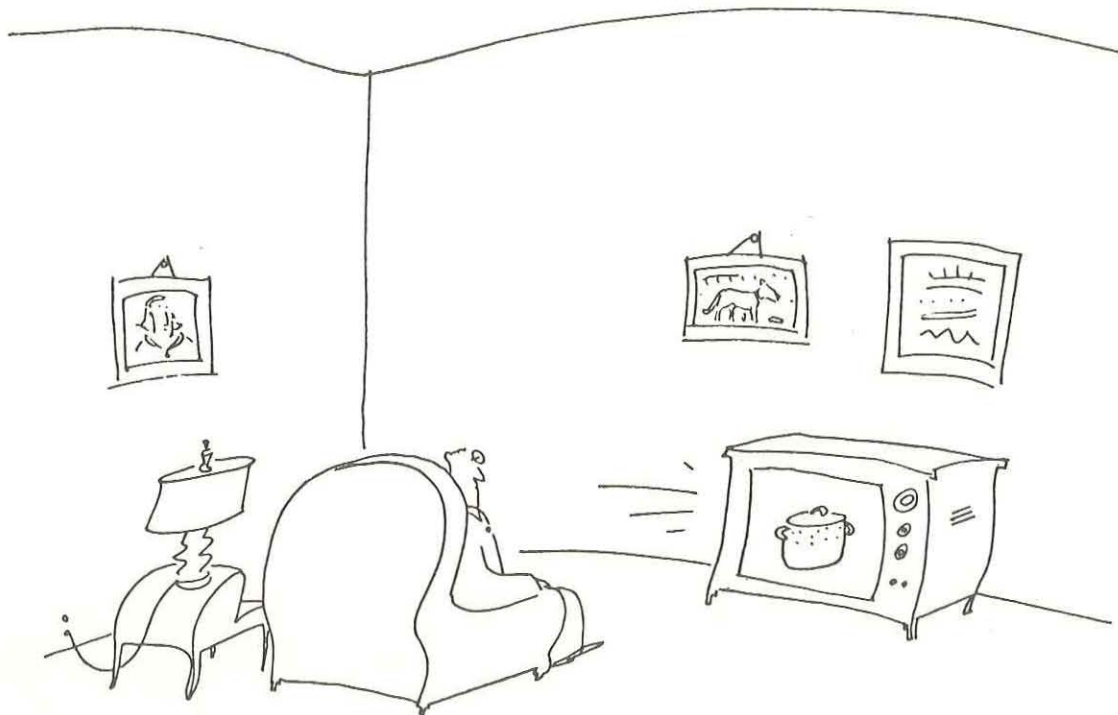
On June 17, 1981, the Supreme Court, in a 5-3 decision, held that the health of workers should outweigh "all other considerations" in regulations implementing the Occupational Health and Safety Act of 1970. "Any standard based on a balancing of costs and benefits . . . would be inconsistent with the law, the majority opinion said. This decision insists that market outcomes and economic analyses should not determine the goals and values regulatory agencies seek to achieve. This runs counter to efforts of the Reagan administration to base regulatory policy on economic techniques of cost-benefit analysis.

In what follows, Mark Sagoff, Research Associate at the Center for Philosophy and Public Policy, explores the limits of cost-benefit analysis in implementing laws that have political and moral, rather than economic, objectives.

President Reagan has ordered all federal agencies to refrain from major regulatory action "unless the potential benefits to society from the regulation outweigh the costs." Executive Order 12291, published in the *Federal Register* on February 10, may help to reform the nation's cumbersome regulatory process. Its critics contend, however, that it will add only another layer to mounting bureaucratic paperwork.

Who is right? Does cost-benefit analysis offer a neutral and rational approach to sound regulatory policy? Will it bias or delay hard choices instead?

Economists in the 1940s and 50s, who developed cost-benefit analysis, did so to apply the theory of the firm to the government. They thought that public investments should return a profit to society as a whole. These economists compared the market value of irrigation and hydroelectric power, for example, with the capital costs of building dams. The Flood



MASLIN

"How much would you pay for all the secrets of the universe? Wait, don't answer yet. You also get this six-quart covered combination spaghetti pot and clam steamer. Now how much would you pay?"

Drawing by Maslin; © 1981
The New Yorker Magazine, Inc.

Control Act of 1939 insisted upon this weighing of economic pluses and minuses. It permitted the government to finance water projects only when "the benefits to whomsoever they accrue [are] in excess of the costs."

The environmental and civil rights legislation of the 1960s and 70s dramatically changed this situation. Congress passed these laws—as it had earlier approved child labor legislation—for political or ethical rather than for primarily economic reasons. Even if child labor were profitable for society as a whole we may still want to outlaw it. Similarly, the Clean Air and Clean Water Acts were passed to improve air and water quality and not necessarily to achieve economically "optimal" levels of pollution. We may insist upon a cleaner environment as a matter of pride even if the resulting economic benefits would not balance the costs.

paying visitors a day—far more than go there now. What could be more cost-beneficial? Yet Congress, in response to ethical and political arguments, outlawed this profitable scheme.

Interior Secretary Watt has now promised to give concessionaries a greater role in managing our national parks. These entrepreneurs know how to market a park—to turn unprofitable wilderness areas into money-making golf courses, motels, bars, discos, swimming pools, restaurants, gift shops, and condominiums. These are things that we want and are willing to pay for as consumers—no matter what we might think of them as citizens. A free market calls for these things; they sell; consumer benefits outweigh consumer costs.

The problem, as many people point out, is that although markets reveal our consumer interests, they may fail to measure our countervailing ethical or



Do our consumer preferences measure our aesthetic principles?

Courtesy U.S. Environmental Agency

The Occupational Health and Safety Act of 1970 requires that the exposure of workers to toxic substances be set at standards as low as are "feasible." In two recent cases—one involving benzene and the other cotton dust—the Supreme Court has heard industry argue that exposure standards are "feasible" or "reasonable" only if they are cost-beneficial. Critics of this view say that if it were adopted workers would be maintained as machines are—to the extent that is profitable. Workers would then not be treated as ends-in-themselves, but as mere means for the production of overall social profit or utility.

The same debate arises with respect to the protection of wildlife and the preservation of wilderness environments. In 1969, for example, the Forest Service approved a plan by Walt Disney Enterprises to develop a vast resort complex in the middle of Sequoia National Park. This would have attracted 14,000

aesthetic principles and our convictions and concerns as citizens. Markets exist for bowls of porridge but not for birthrights. Must we, then, act only as consumers, to turn every arcadia into an arcade and all our free natural beauty into money-making commercial blight?

Economists respond to this question in two ways. Some recognize that cost-benefit analysis simply cannot be used to settle ethical or political controversies. Others are developing a "new" economics to create surrogate or imaginary markets to "price" ethical values and political convictions.

Economists of the first sort allow that Americans are not just consumers with interests they want satisfied in markets; these economists recognize that we are also citizens who have opinions legislatures are supposed to represent. These economists concede, therefore, that pollution, health, and safety standards

should be determined through political argument and compromise. Economic factors are important, of course; they may not be decisive but they should be taken into account. These economists contend, moreover, that the regulatory agencies should do the will of the legislature at the least social cost.

Economists of the second kind believe that cost-benefit analysis can take the values, arguments, and convictions of citizens into account. These economists sometimes try to estimate moral and ethical values on the basis of market data, for example, by looking at prices paid for property in the range of a protected species. The primary technique, however, is to ask citizens how much they are willing to pay for the satisfaction of knowing that the government has acted consistently with some principle, for example, to preserve wilderness. Even if citizens would pay only a few dollars each for these moral "satisfactions," the aggregate sum might be very substantial.

This approach to cost-benefit analysis—which regards the ideals and aspirations of citizens as "externalities" consumer markets have failed to "price"—rests on three mistakes. First, it allows economists to justify virtually any policy at all or its opposite, for it is easy to find "fragile" values, "intangibles," and "moralisms," to support almost any position.

This ambitious approach to cost-benefit analysis rests also on what philosophers call a category-mistake. This is a mistake one makes in describing an object in terms that do not appropriately apply to it, as when one says that the square root of two is blue. It is

nonsense to test the worth of an ideal or a principle by asking what people are willing to pay for it. As well try to establish the truth of a theorem by asking what it is worth, in economic terms, to mathematicians. Nobody asks economists how much they are willing to pay for their view that cost-benefit analysis should form the basis of regulatory policy. No, the views of economists are supposed to be judged on the merits not priced at the margin. Why shouldn't this courtesy extend to contrary opinions as well?

Third, cost-benefit analysis, insofar as it "prices" our convictions as citizens along with our interests as consumers, confuses the economic with the political process. Political decisions have to be cost-conscious; they need to take economic factors into account. But this does not reduce them to economic decisions. To think otherwise would be to suggest that economic "experts" should take the place of elected representatives as interpreters of the public interest. This would replace democracy with a kind of technocracy. It would deprive us of our most cherished political rights.

Conflict in our society involves ideological contradiction as well as economic competition. The one cannot be understood in terms of or reduced to the other. Cost-benefit analysis may be used to give us information about values for which markets exist and are appropriate. But this use is limited. We must otherwise rely on political argument and compromise in Congress ending in a vote and not resort to cost-benefit analysis terminating in a bottom line.

—Mark Sagoff

How Fair is Workfare?

As the Reagan administration budget is debated in Congress and the media, much of the discussion concerns the relationship between welfare and employment. The president supports optional workfare programs, in which individual states are permitted to require food stamp recipients to "work off" the value of food stamps received. AFDC (Aid to Families with Dependent Children) recipients are already required under the WIN (Work Incentive) program to register for and accept training and employment as a condition of eligibility (if not needed at home for the care of a young child). Such requirements have generated heated arguments for both their expansion and elimination, on both moral and pragmatic grounds.

Arguments for Work Requirements

A first argument for work requirements, which may implicitly underlie many other arguments, is that

a welfare recipient owes something to society in exchange for a guarantee of subsistence. On this view, food stamps, housing assistance, and the like are privileges extended by the taxpaying public to the indigent, and it is only fair that those conferring a privilege should be able to set conditions governing its receipt.

A second cluster of arguments appeals to the many benefits to be obtained through a system of work requirements:

(1) *Benefits to other, more needy recipients.* If we assume that the welfare budget is relatively fixed, a greater number of recipients means a smaller share for each. If the welfare pie is sliced thin enough, the neediest recipients may be threatened with inadequate benefits. If able recipients are required to work in the regular labor market, their wages free welfare funds to aid their needier fellows. (The creation of public