
Defending Cost-Benefit Analysis

Replies to Steven Kelman

In our last issue, Steven Kelman of Harvard's Kennedy School of Government criticized cost-benefit analysis from the perspective not of economics but of ethical theory. He concluded that in health, safety, and environmental regulation, (1) certain actions are morally right even where costs exceed benefits, (2) "efforts to put dollar values on non-marketed things" should not be supported, and (3) by and large, regulators are already paying enough attention to cost-benefit analysis.

As might be expected, this attack on one of the generally accepted pillars of regulatory reform provoked a record number of replies from our readership. A sampling is presented below.

JAMES V. DELONG

STEVEN KELMAN'S "Cost-Benefit Analysis—An Ethical Critique" presents so many targets that it is difficult to concentrate one's fire. However, four points seem worth particular emphasis:

(1) The decision to use cost-benefit analysis by no means implies adoption of the reductionist utilitarianism described by Kelman. It is based instead on the pragmatic conclusion that any value system one adopts is more likely to be promoted if one knows something about the consequences of the choices to be made. The effort to put dollar values on noneconomic benefits is nothing more than an effort to find some common measure for things that are not easily comparable when, in the real world, choice must be made. Its object is not to write a computer program but to improve the quality of difficult social choices under conditions of uncertainty, and no sensible analyst lets himself become the prisoner of the numbers.

(2) Kelman repeatedly lapses into "entitlement" rhetoric, as if an assertion of a moral claim closes an argument. Even leaving aside the fundamental question of the philosophical basis of those entitlements, there are two major problems with this style of argument. First, it tends naturally toward all-encompassing claims.

Kelman quotes a common statement that "workers have a right to a safe and healthy workplace," a statement that contains no recognition that safety and health are not either/or conditions, that the most difficult questions involve gradations of risk, and that the very use of entitlement

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language tends to assume that a zero-risk level is the only acceptable one. Second, entitlement rhetoric is usually phrased in the passive voice, as if the speaker were arguing with some omnipotent god or government that is maliciously withholding the entitlement out of spite. In the real world, one person's right is another's duty, and it often clarifies the discussion to focus more precisely on who owes this duty and what it is going to cost him or her. For example, the article posits that an issue in government decisions about acceptable pollution levels is "the right" of such vulnerable groups as asthmatics or the elderly "not to be sacrificed on the altar of somewhat higher living standards for the rest of us." This defends the entitlement by assuming the costs involved are both trivial and diffused. Suppose, though, that the price to be paid is not "somewhat higher living standards," but the jobs of a number of workers?

Kelman's counter to this seems to be that entitlements are not firm rights, but only presumptive ones that prevail in any clash with nonentitlements, and that when two entitlements collide the decision depends upon the "moral importance we attach to the right or duty involved." So the above collision would be resolved by deciding whether a job is an entitlement and, if it is, by then deciding whether jobs or air have greater "moral importance."

I agree that conflicts between such interests present difficult choices, but the quantitative questions, the cost-benefit questions, are hardly irrelevant to making them. Suppose taking *X* quantity of pollution from the air of a city will keep one

asthmatic from being forced to leave town and cost 1,000 workers their jobs? Suppose it will keep 1,000 asthmatics from being forced out and cost one job? These are not equivalent choices, economically or morally, and the effort to decide them according to some abstract idea of moral importance only obscures the true nature of the moral problems involved.

(3) Kelman also develops the concept of things that are "specially valued," and that are somehow contaminated if thought about in monetary terms. As an approach to personal decision making, this is silly. There are many things one specially values—in the sense that one would find the effort to assign a market price to them ridiculous—which are nonetheless affected by economic factors. I may specially value a family relationship, but how often I phone is influenced by long-distance rates. I may specially value music, but be affected by the price of records or the cost of tickets at the Kennedy Center.

When translated to the realm of government decisions, however, the concept goes beyond silliness. It creates a political grotesquerie. People specially value many different things. Under Kelman's assumptions, people must, in creating a political coalition, recognize and accept as legitimate everyone's special value, without concern for cost. Therefore, everyone becomes entitled to as much of the thing he specially values as he says he specially values, and it is immoral to discuss vulgar questions of resource limitations. Any coalition built on such premises can go in either of two directions: It can try to incorporate so many

different groups and interests that the absurdity of its internal contradictions becomes manifest. Or it can limit its membership at some point and decide that the special values of those left outside are not legitimate and should be sacrificed to the special values of those in the coalition. In the latter case, of course, those outside must be made scapegoats for any frustration of any group member's entitlement, a requirement that eventually leads to political polarization and a holy war between competing coalitions of special values.

(4) The decisions that must be made by contemporary government indeed involve painful choices. They affect both the absolute quantity and the distribution not only of goods and benefits, but also of physical and mental suffering. It is easy to understand why people would want to avoid making such choices and would rather act in ignorance than with knowledge and responsibility for the consequences of their choices. While this may be understandable, I do not regard it as an acceptable moral position. To govern is to choose, and government officials—whether elected or appointed—betray their obligations to the welfare of the people who hired them if they adopt a policy of happy ignorance and nonresponsibility for consequences.

The article concludes with the judgment that the present danger is too much cost-benefit analysis, not too little. But I find it hard to believe, looking around the modern world, that its major problem is that it suffers from an excess of rationality. The world's stock of ignorance is and will remain quite large enough without adding to it as a matter of deliberate policy. ■

ROBERT M. SOLOW

I AM AN ECONOMIST who has no personal involvement in the practice of cost-benefit analysis, who happens to think that modern economics underplays the significance of ethical judgments both in its approach to policy and its account of individual and organizational behavior, and who once wrote in print:

It may well be socially destructive to admit the routine exchangeability of certain things. We would prefer to maintain that they are beyond price (although this sometimes means only that we would prefer not to know what the price really is).

You might expect, therefore, that I would be in sympathy with Steven Kelman's ethical critique of cost-benefit analysis. But I found the article pro-

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foundly, and not entirely innocently, misleading. I would like to say why.

First of all, it is not the case that cost-benefit analysis works, or must work, by "monetizing" everything from mother love to patriotism. Cost-benefit analysis is needed only when society must give up some of one good thing in order to get more of another good thing. In other cases the decision is not problematical. The underlying rationale of cost-benefit analysis is that the cost of the good thing to be obtained is precisely the good thing that must or will be given up to obtain it. Wherever he reads "willingness to pay" and balks, Kelman should read "willingness to sacrifice" and feel better. In a choice between hospital beds and preventive treatment, lives are traded against lives. I suppose it is only natural that my brethren should get into the habit of measuring the sacrifice

in terms of dollars forgone. In the typical instance in which someone actually does a cost-benefit analysis, the question to be decided is, say, whether the public should be taxed to pay for a water project—a context in which it does not seem far-fetched to ask whether the project will provide services for which the public would willingly pay what it would have to give up in taxes. But some less familiar unit of measurement could be used.

Let me add here, parenthetically, that I do agree with Kelman that there are situations in which the body politic's willingness to sacrifice may be badly measured by the sum of individuals' willingnesses to sacrifice in a completely "private" context. But that is at worst an error of technique, not a mistaken principle.

Second, Kelman hints broadly that "economists" are so morally numb as to believe that a routine cost-benefit analysis could justify killing widows and orphans, or abridging freedom of speech, or outlawing simple evidences of piety or friendship. But there is nothing in the theory or the practice of cost-benefit analysis to justify that judgment. Treatises on the subject make clear that certain ethical or political principles may irrever-

sibly dominate the advantages and disadvantages capturable by cost-benefit analysis. Those treatises make a further point that Kelman barely touches on: since the benefits and the costs of a policy decision are usually enjoyed and incurred by different people, a distributional judgment has to be made which can override any simple-minded netting out. In addition, Kelman's point that people may put different values on the acquisition of a good for the first time and on the loss of a pre-existing entitlement to the same good is not exactly a discovery. He should look up "compensating variation" and "equivalent variation" in a good economics textbook.

Third, Kelman ends by allowing that it is not a bad thing to have a modest amount of cost-benefit analysis going on. I would have supposed that was a fair description of the state of affairs. Do I detect a tendency to eat one's cost-benefit analysis and have it too? If not, what is the point of all the overkill? As a practical matter, the vacuum created by diminished reliance on cost-benefit analysis is likely to be filled by a poor substitute for ethically informed deliberation. Is the capering of Mr. Stockman more to Mr. Kelman's taste? ■

GERARD BUTTERS, JOHN CALFEE, PAULINE IPPOLITO

IN HIS ARTICLE, Steve Kelman argues against the increased use of cost-benefit analysis for regulatory decisions involving health, safety, and the environment. His basic contention is that these decisions are moral ones, and that cost-benefit analysis is therefore inappropriate because it requires the adoption of an unsatisfactory moral system. He supports his argument with a series of examples, most of which involve private decisions. In these situations, he asserts, cost-benefit advocates must renounce any moral qualms about lies, broken promises, and violations of human rights.

We disagree (and in doing so, we speak for ourselves, not for the Federal Trade Commission or its staff). Cost-benefit analysis is not a means for judging private decisions. It is a guide for decision making involving others, especially when the welfare of many individuals must be balanced. It is designed not to dictate individual values, but to take them into account when decisions must be made collectively. Its use is grounded on the principle that, in a democracy, government must act as an agent of the citizens.

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We see no reason to abandon this principle when health and safety are involved. Consider, for example, a proposal to raise the existing federal standards on automobile safety. Higher standards will raise the costs, and hence the price, of cars. From our point of view, the appropriate policy judgment rests on whether customers will value the increased safety sufficiently to warrant the costs. Any violation of a cost-benefit criterion would require that consumers purchase something they would not voluntarily purchase or prevent them from purchasing something they want. One might argue, in the spirit of Kelman's analysis, that many consumers would want the government to impose a more stringent standard than they would choose for themselves. If so, how is the cost-safety trade-off that consumers really want to be determined? Any objective way of doing this would be a natural part of cost-benefit analysis.

Kelman also argues that the process of assigning a dollar value to things not traded in the marketplace is rife with indignities, flaws, and biases. Up to a point, we agree. It is difficult to place objective dollar values on certain intangible costs and benefits. Even with regard to intangibles which

have been systematically studied, such as the "value of life," we know of no cost-benefit advocate who believes that regulatory staff economists should reduce every consideration to dollar terms and simply supply the decision maker with the bottom line. Our main concerns are twofold: (1) to make the major costs and benefits explicit so that the decision maker makes the trade-offs consciously and with the prospect of being held accountable, and (2) to encourage the move toward a more consistent set of standards.

The gains from adopting consistent regulatory standards can be dramatic. If costs and benefits are not balanced in making decisions, it is likely that the returns per dollar in terms of health and safety will be small for some programs and large for others. Such programs present opportunities for saving lives, and cost-benefit analysis will reveal them. Perhaps, as Kelman argues, there is something repugnant about assigning dollar values to lives. But the alternative can be to sacrifice lives needlessly by failing to carry out the calculations that would have revealed the means for saving them. It should be kept in mind that the avoidance of cost-benefit analysis has its own cost, which can be gauged in lives as well as in dollars.

Nonetheless, we do not dispute that cost-benefit analysis is highly imperfect. We would welcome a better guide to public policy, a guide that would be efficient, morally attractive, and certain to ensure that governments follow the dictates of the governed. Kelman's proposal is to adopt an ethical system that balances conflicts between certain unspecified "duties" and "rights" according to "deliberate reflection." But who is to do the reflecting, and on whose behalf? His guide places no clear limits on the actions of regulatory agencies. Rather than enhancing the connections between individual values and state decisions, such a vague guideline threatens to sever them. Is there a common moral standard that every regulator will magically and independently arrive at through "deliberate reflection"? We doubt it. Far more likely is a system in which bureaucratic decisions reflect the preferences, not of the citizens, but of those in a peculiar position to influence decisions. What concessions to special interests cannot be disguised by claiming that it is degrading to make explicit the trade-offs reflected in the decision? What individual crusade cannot be rationalized by an appeal to "public values" that "rise above" values revealed by individual choices? ■

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A CONSIDERABLE DISTANCE separates Steven Kelman's views and mine on, first, the appositeness of cost-benefit analysis and, second, the historical context in which we live. No matter: his thoughtful and gracefully written article expresses a point of view that is widespread and must not be disregarded by those of us who see the matter somewhat differently.

(1) I question Kelman's use of "utilitarianism." It seems to me that he has in mind, rather, Bentham's notable (or notorious) hedonic calculus—which does indeed posit that the morally right act is always the one that maximizes satisfaction. Granted that utilitarian theory was originated by Bentham, with the assistance of James Mill. But there is much warrant and precedent for taking it as we find it in John Stuart Mill's *Utilitarianism*.

Mill, like Bentham and the great English utilitarians of the late nineteenth century, believes the end of government should be to accomplish the greatest possible good for the greatest possible number. But Mill will have none of the hedonic calculus. "He who saves a fellow creature from

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drowning does what is morally right, whether his motive be duty, or the hope of being paid for his trouble; he who betrays a friend that trusts him is guilty of a crime, even if his object be to serve another friend to whom he is under greater obligation." And there is more: "It is confessedly unjust," says Mill, "to break faith with anyone, to violate an engagement, either express or implied, or disappoint expectations raised by our own conduct. . . ." So much for Kelman's illustrations with respect to the irrelevance or impiety of cost-benefit assessment.

In addition, the conviction that utility ought to be the ultimate standard of value is, for Mill, quite compatible with the belief that "certain social utilities . . . are vastly more important and therefore more absolute and imperative than any others are as a class"—and, further, that these utilities should be and are "guarded by a sentiment not only different in degree but in kind." Mill lists a number of such "utilities," chief among them liberty. Were he living today, he might very well—in fact, probably would—add conservation of resources to his list of overriding utilities.

(2) That leads me to Kelman's worthy insistence that there are certain values in life for which

cost-benefit assessment is inappropriate, even immoral or illogical. I dare say there are, most of them being highly subjective and egocentric. But consider so subjective a state of mind as, say, one's love of another human being. We stipulate the crassness and venality of claiming to love another if the loved one's exclusive attraction is an abundance of worldly goods. There have been other ages, however, not without honor, and there are even now peoples whose morality must be presumed at least as elevated as ours who take a less subjective (and romantic) view of this matter than we contemporary Americans do. In many a newspaper in India we find advertisements for spouses, with everything from a Ph.D. to a given number of cows put on the negotiation counter. Marriages are not to be allowed, in such a culture, to run the risk of foundering on mere human passion—call it love—and on subjective assessment free of cost-benefit analysis. Marriage is too serious in the Hindu's mind, too sacred, too vital. I do not recommend the Hindu dogma of marriage to this generation of Americans, but from all I have been able to discover from Indian records, as many happy marriages proceed from naked cost-benefit analysis there as from whatever most marriages proceed from in the United States. In fact, I know of virtually nothing, really, in mankind's history, however sacred—birth, marriage, and death foremost—that has not been and is not today in many places subjected to cost-benefit consideration.

To take a less universal crisis of the human condition, the care of the handicapped is, I believe, an obligation of any civilized society. But are we being callous to see economic disaster ahead if we dismiss altogether cost-benefit criteria in our search for ways of increasing their mobility? Is it inhumane to look for other ways of helping wheelchair users than by spending tens of millions on ramps and lifts?

Or take the environment. As far as I am concerned, laws against pollution and resource depletion are always called for, within reasonable limits. And doubtless some parts of the wilderness should be maintained as nearly as possible in their pristine state. But not, I would argue, with such zeal that even prospecting for vital fuels and minerals is outlawed. There is no evidence in this area—or elsewhere, for that matter—of the surfeit of cost-benefit balancing Kelman seems to have observed. With memory fresh of the Alaskan wilderness bill that President Carter signed, I am obliged to conclude that proper balance lies a long way ahead of us—meaning a balance under which private industry has a great deal more leeway than it now has to explore, mine, or otherwise develop these areas. We should remember that serious environmentalism (conservation, as it was called then) began

under such prescient minds as Theodore Roosevelt and Gifford Pinchot, who repeatedly declared that the purpose of conservation was *not* idle preservation but rather to prevent wanton desolation and to guarantee a future in which people could continue to rise in the scale of economy and civilization.

Unoccupied land is exactly a place where cost-benefit analysis is vital—in the sheer interest of the large numbers of underprivileged among us, including the young not yet established in a career and most emphatically blacks, Hispanics, and other minorities whose rise to middle-class status is among the highest items on our national social agenda. What they, and all others who are currently disadvantaged and in need of channels of upward mobility, require most is economic growth and increased productivity. For without the certain prospect of a vast number of new jobs in the private sector, much of the foundation for what we call the American way of life is destroyed. It is truly unfortunate that the once noble conservation movement in this country has fallen, for the most part, into the hands of those less interested in the welfare of posterity than in the preservation of a wilderness that has become an end in itself, a source of happiness for a tiny few who, I fear, love the wilderness above man. Environmentalism is rapidly becoming the socialism, not of fools, but of the middle and upper classes.

In sum, I agree with Kelman that there assuredly are considerations of the quality of life which should be free of cost-benefit analysis. But I am too avid a student of the great civilizations of past and present to believe that there are very many of these considerations. Protagoras' seminal aphorism is worth calling to mind: "Man is the measure of all things." And also the words of that author of Genesis who wrote: "Be fruitful and multiply; and fill the earth and subdue it; and have dominion over the fish of the sea and the birds of the air and over every living thing that moves upon the earth." St. Francis was a great and good man, and we can applaud his devotion to beasts, birds, and fishes. But the Church, rooted as it was in the Jewish-Greek philosophy I have just cited, came to see this extraordinary man in different light. It was when in some degree St. Francis and in much larger degree certain of his disciples argued as though *nature* must be allowed to *subdue man*, as though the *beasts, birds, and fishes* must have *dominion over man*, that the Franciscan message was properly checked.

Alas, the Franciscan heresy is spreading today in America, and it is precisely in the enclaves of the affluent and privileged that we find it most at work—to the lasting disadvantage of those who did not happen to get there first. ■