Discussion

- How does CBA (or ECBA, or BCA, or EBCA) relate to welfare economics and efficiency analysis?

CBA is applied welfare economics

- Pareto optimality and Kaldor Hicks compensation principle is CBAs guide
- Given acceptable distribution, then undertake a project only if NPV is positive
- Assess NPV as if expenditures were occurring in a perfect market
- Make adjustments for market failures, distortionary taxes, imperfect prices
How is CBA analogous to a firm?

- Sales: total revenue?
- Firm Costs?
- Maximize Firm Profits goal?

Discussion

• What types of choices are CBAs best suited for?

What types of choices are CBAs best suited for?

• Accepts existing distribution of wealth and income
• Uses market prices as measure of value at the margin where there are market prices
• Uses shadow prices as close to where a market price would be
What types of choices are CBAs best suited for?

- Accepts consumer sovereignty, assumes choices reflect values
- Best used for incremental or small changes from status quo (e.g. more or less pollution)
- Best used where prices or shadow prices can be obtained
- Not appropriate when major changes in distribution result

Discussion

- Why do a BCA?

Why do a BCA?

- Policy guideline, policy screen
- Analytical Framework
  - Illuminates, informs
  - Systematic
- Listing the Pros/Cons and ranking of alternatives
- Information System
  - Informs, but does not dictate
  - Make informed decisions
Discussion

- What would be the correct discount rate to use when discounting future benefits and costs?

Discount Rates

- Adjustments for time (time preferences)
- Want the discount rate that reflects the opportunity cost of time (i.e. opportunity cost of capital)
- Controversial because we do not have only one discount rate
  - Market rate of interest
  - Consumption discount rate
    - Personal
    - Social
  - Marginal rate of return on investment

Discount Rate

- Risk free market interest rates
- Interest rates on government bonds
- Note: No unique relationship between discount rates and environmental deterioration
- Adjusting discount rates to get sustainability—clumsy and inadequate
Maximize NPV

- Not IRR
- Not B/C
- Accounting for inflation

Other Issues

- Accounting Stance
- With and Without
  - Not before and after
- What and how to count B and C
  - Unemployed resources
  - Double counting
  - When to stop counting

Other Issues: Dealing with Risk

- Sensitivity Analysis
- Assumptions about trends
  - Krutilla and Fisher-wilderness values rise relative to development values
  - Weights
- Cost Effectiveness
Discussion

- What are the objections to CBA?
- How are these objections related to concepts of sustainability?

Objections to CBA

- Rejection of consumer sovereignty
  - Ignorance
  - Not deliberative in assessing consequences of choices
  - Cannot relate to choices
  - Individual preferences are not accurate (been engineered)
  - People do not know their preferences until confronted by actual choices

Objections to CBA: Sagoff

- Simply wrong to appeal to self-interested preferences to resolve serious environmental issues
- Also criticizes Non-market value techniques
Objections to CBA: Booth

• Destruction of the natural environment shall not be undertaken unless absolutely necessary to maintain the real incomes of all humans as a decent level of living

Objections rooted to sustainability concepts

Politics and the CBA

• Values as negotiation outcome and not an analytical outcome
• Use of CBA to support existing political positions
• Misuse of CBA
• CBA as a constraint on agency effectiveness
• CBA as a part of a policy dialogue
The Language of Loss (Dan Bromley)”

• Knutson et al pesticide study—ban pesticides at your peril
• The phrase “regulatory impacts” or losses are “mere artifacts of current production practices”
• Losses bear no relationship to efficiency because new institutional structure means new efficiency path

The Language of Loss (Dan Bromley)

• Argues: policy analysis should search for least cost alternatives for reduced pesticide use (technology futures)
• Focus: regulatory means not ends
• Public policy is about the incidence of impacts
• “there are no correct prices in a market economy, only prices reflecting costs which must be accounted for”
  Costs and competitiveness are arbitrary concepts