

## Conference Highlights & Future Directions

Over the course of two days and seven themed panels, the *Developing Standards for Benefit-Cost Analysis* conference revealed new directions for future scholarship, as well as highlights of current research and scholarship.

**Panel I** focused on government use of benefit-cost analysis (BCA), both present and future, in light of the ongoing emphasis on regulatory review on the part of the Clinton, Bush, and Obama administrations. Panelists provided varying perspectives, speaking to the implementation of BCA at the agency level (specifically the Department of Agriculture and Department of Transportation) and to the regulatory review process more broadly (panelists from the Government Accounting Office, White House Office of Management and Budget, and Office of Information and Regulatory Affairs). Government agencies embrace BCA to varying degrees, but where taken seriously, analyses being conducted are highly sophisticated and result in more effective, efficient rule making.

**Panel II** discussed the use of benefit-cost analysis to applied public safety projects. Public safety encompasses a wide spectrum of issues, from crime to pandemic mitigation. While the panel highlighted discipline-specific issues and methodological constraints (e.g. issues in BCA for pandemic mitigation), it also noted that there is a need to establish broader principles and standards for public safety BCA broadly.

**Panel III** considered education policy and benefit-cost analysis. The difficulties in conducting effective BCA with regards to education, and especially early childhood interventions, were highlighted along with new developments in the field. Panelists emphasized several education-specific difficulties and ongoing scholarship to this end: cross comparisons are difficult, costs are incredibly opaque in K-12 educations, benefits accrue in several different arenas, and gains can be difficult to quantify.

**Panel IV** discussed the use of general-equilibrium in benefit-cost analysis. Though a full general equilibrium model is only a theoretical construct, the panel demonstrated when it is important to evaluate general equilibrium effects when analyzing a policy. Typical intuition regarding the importance of general equilibrium effects is often misleading; such effects are most prominent not when the targeted market is large, but when the targeted market has significant cross elasticity with another market, or where it indirectly affects a large market. The panel demonstrated current general equilibrium BCA modeling and discussed ongoing and future efforts at streamlining such work.

**Panel V** focused on the implications of behavioral economics for benefit-cost analysis. While behavioral economics represents an exciting new sub-discipline, many difficulties remain regarding implementing its findings into actual BCA. It is important in the future that we develop the ability to make operational behavioral findings for policy decisions. Nonetheless, behavioral factors have current-day implications for policy design and effectiveness. BCA should be based upon the best-possible understanding of preferences and decision-making; thus, behavioral economics present an exciting thrust that portends to enhance BCA. Even where behavioral models are not incorporated quantitatively, analysts need to bear in mind such findings when evaluating data and conducting analyses.

**Panel VI** considered the use of benefit-cost analysis and cost-effective analysis (CEA) for health and public safety. This panel repeatedly highlighted the importance of using the correct evaluative tool for the analysis needed and the correct measurement for the analysis. Panelists agreed that applying evaluation tools to health is inherently difficult, due to the difference in consumer preferences. BCA and CEA answer questions via different metrics, and utilize different numerators (money, and a quality of life adjusted year measurement), resulting in very dissimilar results. CEA has been the preferred evaluation tool in health economics. The importance of providing shadow prices was also mentioned to make using BCA effective for use in state and local governments.

**Panel VII**, the concluding panel, introduced the topic of the legal perspective of the changing environment. The panel focused on the incorporation of distributional issues into benefit-cost analysis. Panelists considered the importance of creating institutional mechanisms to effectively address environmental justice. The primary opposition to BCA stems from critical legal studies and postmodernists; the panel emphasized the need to make BCA more generally acceptable. The panel concluded with a continued discussion of the importance of addressing distributional issues with regards to effective benefit-cost analysis.

**Dr. Michael Greenstone's keynote address** focused on the social cost of carbon and opened by placing social cost in the current context of international climate change discussions and treaties such as the Copenhagen Accord. Greenstone folds the climate change discussion into a benefit-cost framework. The use of models, socio-economic scenarios, climate sensitivity distributions, and discount rates can provide a detailed understanding of distributions resulting from each model and scenario. The social cost of carbon offers a way to measure the economic value of emissions reduction, serves as a guide for greenhouse gas reduction, and offers the possibility of regulation wherein the benefit can exceed the cost. He ended his remarks by encouraging further research in this growing field.

## **Future Directions**

Throughout the conference, several themes emerged, providing guidance for the continued embrace of benefit-cost analysis in an array of social policy fields. The importance of choosing the correct metrics was among the most prominent. Other issues to be addressed in the future include a portfolio approach justification for BCA, standardized stated-preference methodology, the validity of separating equity and efficiency given new research findings and theoretical advances, the roles of behavioral models in valuation and prediction, the relation between benefit-cost and happiness research, and a compilation of unit value for work in social program evaluation. The importance of continued study and research was highlighted, as new uses and applications of this analytic tool continued to be engaged.