

Society for Benefit-Cost ANALYSIS

Second Annual Membership Meeting

Wednesday, October 21, 2009, 1:00pm
Washington Court Hotel, Washington D.C.

Meeting Minutes

NOTE: Speakers are recognized in **bold**.

1:00pm Lunch & Socializing.

1:20pm Introduction by Society Vice President **Richard Zerbe**

Thank you for attending. There are currently no Board of Directors positions open, however, Vice President position is open starting in 2010. Contact Richard Zerbe if interested in being nominated. Introduces brief comments by Society President Arnold Harberger.

1:23pm Comments by Society President **Arnold Harberger**.

I wanted to take this opportunity to make a few remarks. First of all, I think that if benefit-cost analysis is ever going to fulfill its promise, the key to its success will be professionalism. We need to come together on rules, procedures, methodology, etc, to the point where our work can be classified as good, bad, indifferent, terrible, etc. with a fair degree of reliability. This cannot happen if we run off in all different directions, "inventing" new benefits, new costs, new externalities, and new procedures at the drop of a hat. Going down that road, anybody who wants a bad project will be able to contract for a benefit-cost analysis that will justify it. I think it is mainly professionalism that can help ensure the quality of our work. And to that end, it is important that our professional output should be made available for inspection, at least on the internet.

We should also worry about the fact that most of the benefit cost analyses that are contracted for, are being paid for by someone (or some entity) that clearly wants the project to be accepted (or in rare cases rejected). In any real-world case, there are likely to be hundreds of judgment calls--estimating the future paths of prices and wages, choosing a discount rate or an opportunity cost of foreign exchange or labor, estimating project costs, and the demand for its output, etc. It is only natural that analysts would tend to lean in the direction desired by their paymaster, if that is what it takes to come up with the "desired" answer. I don't think we have much protection against this quite natural tendency, except for professionalism. And the urge

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to do a seriously professional job will surely be stronger if the product will be openly available for other professionals to scrutinize.

I was just at a conference in Lima, attended by officials from ten different countries' "national systems of public investment." I was amazed at how far several of these countries had gone. In Peru, for example, they did cost-benefit analyses last year of more than 40,000 different projects. And they have manuals for dozens of different classes of projects, detailing how to specify all sorts of classes of benefits and costs, in great detail. I was not able to audit these manuals for quality, but it is clear that the people involved are very serious, and are trying hard.

The danger, obviously, is that all that new bureaucracy will just end up as an expensive rubber stamp for the very same projects that would have been done anyway. I suggested there, and also would suggest for our own Society, that we really try to identify and give publicity to (a) cases where good benefit-cost analysis succeeded in actually stopping important white-elephant projects, and (b) cases where the analysis succeeded in bringing about a major redesign, turning bad projects into good ones.

When all is said and done, we should never forget the basics. In various encounters with the media, as well as in the Lima conference itself, I got the biggest response when I emphasized the fallacy of considering investment as a benefit, rather than a cost. Externalities of various kinds can lead to true economic costs being less than financial costs, but nonetheless investment enters the profile with a minus sign, and so does the use of labor. I always tell my students, I'm ready to assign a zero economic opportunity cost to any worker, so long as that worker is willing to work for zero!

Finally, I want to emphasize that in our search for simplicity, we should be mindful that one can build a lot of simplicity on something as simple as the choice of a numeraire. If we use the GDP deflator as the numeraire, that means we are counting everything in production baskets. If we use the CPI, that means we are counting in terms of consumption baskets. The numeraire price becomes the deflator we use in defining relative prices.

It also deals with issues of utility, at least up to a point. My utility is converted into production or consumption baskets at my marginal utility of the basket; you do your conversion at your marginal utility of the basket, and once that is done, our simple choice of the numeraire tells us to count our benefits and costs in such baskets.

And it is easy to justify using, as the discount rate, that rate which measures how many future baskets we give up, when we extract one basket from the

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capital market, or how many future baskets will be generated as a consequence of our dumping one more basket into today's capital market.

1:43pm **Richard Zerbe:** Update on the Society.

The Society is now a corporation, which is the first step to becoming a 501(c)(3).¹ All the work has been done for the 501(c)(3), but waiting until after the conference to complete, so that there would be no confusion with that, and to make sure people who had done charitable donations wouldn't have any troubles.

1:45pm **Richard Zerbe** acknowledges gifts:

Arnold Harberger
Scott Farrow & UMBC
Evans School at the University of Washington
Joe Cordes & The George Washington University
Anonymous

1:46pm **Scott Farrow**, Journal of Benefit-Cost Analysis Editor-in-Chief provides update on JBCA.

Journal website is now up – 2 yrs in the making. Publisher: Berkeley Electronic Press (BEPress). BEPress has a nice package of economics, law and policy journals that we fit in well with. The format will help us reach international audience, and create international interest through relatively easy access and download. In addition, there is the ability to purchase bound volumes at the end of the year. The bound volume option is good for libraries.

Get to the Journal's website by going to the URL www.bepress.com/jbca.

Website currently open for submissions.

Introduces Mary Kokoski as Managing Editor. Kokoski is an economist who retired after 25 years at the Bureau of Labor Statistics. Formerly one of Kerry Smith's students, Kokoski did her undergraduate work at George Washington. Kokoski is in charge of keeping the all-electronic process moving, and will also be in charge of outreach to potential authors and subscribers.

The Journal has a strong editorial board:

Mark Cohen (Resources for the Future)

¹ 501(c)(3) is the provision of the U.S. tax code that applies to corporations designated as nonprofit corporations able to accept tax-deductible contributions.

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Dan Cole (Indiana University)
Trudy Cameron (University of Oregon)
Maureen Cropper (University of Maryland)
Ernesto Fontaine (Catholic University of Chile)
Art Fraas (Resources for the Future)
John Graham (Indian University)
Robert Hahn (Oxford University)
Arnold Harberger (UCLA)
Robert Haveman (University of Wisconsin)
Lester Lave (Carnegie Mellon University)
Eric Posner (University of Chicago)
Richard Revesz (New York University)
Lisa Robinson (Independent Consultant)
Kip Viscusi (Vanderbilt University)
David Weimer (University of Wisconsin)
Richard Zerbe (University of Washington).

Glenn Jenkins (Queen's University), Joe Cordes (George Washington University) and David Salkever (UMBC) are Associate Editors.

Benefit-cost analysis currently faces a challenge and an opportunity. It represents a diversity of disciplines and uses, ranging from academic high-theory to "I need the number by the end of the week" analyses. Hopefully the Journal can bridge some of this with articles; case studies, including cases representing high-, middle- and low-cost analyses; and skills of the trade, e.g. particular transformations or data sources. May publish a number of short 2-3 page pieces in these latter categories.

The success of the Journal and the Society are intertwined. Please submit manuscripts, and please don't scream too loudly when I ask you to review articles.

Each member of the Society has a subscription as part of membership. You might also have a subscription through your library. Encourage your libraries to subscribe. To the extent people download articles without being members, BEPress will collect their information to indicate revealed preferences for the Journal.

1:51pm **Richard Zerbe** highlights that better quality articles, with well-known, authors, will improve the journal's reputation more quickly.

1:53pm **Richard Zerbe** describes principles and standards project funded by the MacArthur Foundation. MacArthur has initiated a project developing principles and standards for benefit-cost analysis for use in analyzing social

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programs. No real definition on what social programs are, though it's clear that education, foster care, and juvenile programs fit their model of social programs. Regardless, this effort to establish standards will benefit the broader benefit-cost community.

With MacArthur funding, the Benefit-Cost Analysis Center has commissioned white papers on developing standards in particular areas, including early childhood programs, addiction, public health preparedness, and crime, among others. These white papers are not meant to be in themselves the principles and standards, but are meant to be background papers for the development of principles and standards.

The hope is that the Society will form committees to over time develop principles and standards, taking into account what has already been done by this project, and by others including the EPA, Army Corps of Engineers, and countries around the world. The goal is to develop our own principles and standards that would cover social programs and benefit-cost analysis generally. One suggestion is to try and develop these specifically for government workers, understanding that they will also provide a lot of useful information for academics. A goal is to have papers at the conference next year that deal with principles and standards issues.

1:55pm **Richard Zerbe** would like to thank the Society's Board of Directors who have been very helpful over this year: Carol Bray, Joe Cordes, Scott Farrow, Glenn Jenkins, Lisa Robinson, Kerry Smith, and David Weimer. A subcommittee of the Board set the agenda and selected papers.

If I were on the ball, I would have asked the staff to come in so I could thank them. Katie Ward, Aubri Wall, Nancy Garland & Deborah Fishler have all done a great job putting this together.

1:59pm **Richard Zerbe** opens the floor for comments.

1:59pm **Lisa Robinson:** Want to acknowledge the incredible number of submissions received for the conference. We had about a 50% acceptance rate. Thank you to Richard Zerbe for getting the Society going and for getting us this far.

2:00pm **Ken Acks:** With respect to audience, one thing the Society might want to think about is bright 19-year old college kids who are not convinced about the usefulness of benefit-cost analysis, or government workers who are not very involved in benefit-cost analysis in their work. Might want to think about reaching out to them; we need to think about how to reach out to them, because this conference might be a way to reach out to them.

Richard Zerbe: Two suggestions from the Board. One is a special session during the conference that speaks to that audience. Another is to offer

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workshops prior to the conference, like the analyzing risk course at Harvard.² This could also be a way to raise money. Get calls with some frequency to come and give workshops; this could also be exploited.

2:02

Paul Anton: If you look at the goals of the Society, #4 is to develop standards,³ #5 is to improve communication and consideration of benefit-cost analysis methods.⁴ Disagrees with Harberger, doesn't think that our work can just be internal. There will always be people who will pay for a benefit-cost analysis no matter the quality, and there will always be people who will do them. In order for standards to be effective, needs to do communication to other audiences, something like an Ig Nobel prize for the worst cost-benefit analysis. We have to communicate what good and bad benefit-cost analyses are, what they look like.

Richard Zerbe: We hope to develop standards that have weight, with the imprimatur of the Society, and maybe have these standards cited in court cases so they get some kind of defense.

Paul Anton: Suggests maybe could work towards establishing a sort of *Daubert* hearing⁵ for benefit-cost analyses.

Daniel Cole: Would hesitate to suggest *Daubert* type standard, because *Daubert* has many problems. Has written about best standards becoming moral or legal norms. Also wants to make plug for cross-pollination between disciplines, and for the Society for Environmental Law and Economics (SELE, with which several Society members are already involved). SELE will hold its Second Annual Meeting at Emory University.⁶

Glenn Harrison: Perhaps rather than imprimatur, or Ig Noble, it would be simpler to provide an electronic clearing-house of all the benefit-cost

² The Harvard School of Public Health's Center for Continuing Professional Education, in collaboration with the Harvard Center for Risk Analysis holds a 3.5 day workshop entitled Analyzing Risk: Science, Assessment, and Management, which teaches participants "how to apply the science behind risk-based decision making," among other things. For more information, visit

<https://secure.sph.harvard.edu/ccpe/programs.cfm?CSID=RISK0310&pg=cluster&CLID=1>

³ Primary goal number four's exact language is to "Develop and update standards of practice for benefit-cost and applied welfare analysis."

⁴ Primary goal number five's exact language is to "Foster methods to improve communication and consideration of benefit-cost methods and results."

⁵ A *Daubert* hearing is a hearing held by a judge on the admissibility of expert testimony evidence. The test is named after *Daubert v. Merrell Dow Pharmaceuticals*, 509 U.S. 579 (1993), which redefined "scientific knowledge" for the purposes of allowing expert testimony. In order to meet the threshold for admission into evidence, the "scientific knowledge" must be a product of sound "scientific method." The exact elements may vary based on the facts and the type of testimony potentially being admitted into evidence.

⁶ The Society for Environmental Law and Economics Second Annual Meeting will be held March 26-27th, 2010 at Emory University in Atlanta, Georgia. The call for papers can be found here:

<http://www.ssrn.com/update/ern/ernann/ann09165.html>.

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analyses we can find. A lot of analyses never see the light of a journal. In particular, it's hard to go outside your own area of expertise and know what's quality or not.

Lisa Robinson: Some compilations already exist, for example the Regulatory Impact Analyses published by the Environmental Protection Agency.⁷ The value that the Society could add to these existing compilations, or in our own compilation would be in comments.

2:06 **Richard Zerbe:** The Benefit-Cost Analysis Center also has a project starting to amass a database of benefit-cost analysis studies. The Center also intends to provide a “matching service” for practitioners who might not have the time to write up their analyses or results, and want to solicit a co-author, in order to increase the number of publications and their quality within benefit-cost analysis.

Peter Belenky: Regulations are all online on regulations.gov, but nothing that leads explorer to those that are good/terrible/misleading, etc.

2:08 Adjourn.

*Meeting minutes taken and annotated by Nancy Garland, Research Assistant to Dr. Richard Zerbe.

⁷ The regulatory impact analyses published by the Environmental Protection Agency can be found here: <http://yosemite.epa.gov/ee/epa/eed.nsf/webpages/RegulatoryImpactAnalyses.htm>.