

Follow-up Recommendations for Future Work

Advancing Social Policy-Making Through Benefit-Cost Analysis: Challenges & Opportunities
June 23-24, 2008, Washington, D.C.

Conference Summary

The *Advancing Social Policy-Making Through Benefit-Cost Analysis: Challenges and Opportunities* conference provided a forum for scholars, practitioners, and policymakers to explore benefit-cost analysis (BCA) as it is currently used in social programs and its potential future applications. **Michael Stegman**, Director of Policy and Housing at the MacArthur Foundation, opened the conference by noting the Foundation's hope that benefit-cost analysis will create compelling bodies of evidence that will positively influence policy and the way policy decisions are made. The evidence garnered by BCA has the potential to reduce the role of ideology in social policymaking, increase the government's adoption of evidence-based practices, and improve public confidence in government. Seven panels throughout the day-and-a-half conference focused on successful uses of BCA within early learning education programs, state government and policy, administrative data systems, and welfare reform. Panels also focused on technical issues such as shadow pricing and the challenge of developing BCA principles and standards for social program assessment and evaluation. An additional panel compared the use of BCA in the United States and the European Union.

Key Insights

Greg Duncan, Professor, Northwestern University, showed how sensitive people are to stress, and that it deeply affects behavioral, cognitive, and immune system development. The effect of stress remains with us throughout life, suggesting that early investments and interventions can have significant long-range benefits.

Lynn Karoly, Senior Economist, RAND Corporation, established it is not always clear in BCA that program benefits are exceeding costs, because in many cases it is hard to give effects a monetary value. She noted favorable effects are found both in smaller demonstration programs and in large, publicly funded programs, and that both high-cost, intensive programs and lower-cost programs can have positive benefit-cost ratios. Additionally, programs can achieve bigger benefits by targeting needier populations.

Robert Bradham, Senior Vice President, Richmond Chamber of Commerce, pointed out benefit-cost analysis studies are essential to persuading public officials, but can only be selectively used so there is not a deluge of numbers flying around. **Steve Aos**, Assistant Director, Washington State Institute for Public Policy, noted BCA is and can be well used at the state level. He gave an example of a BCA in Washington state that supported increased use of drug courts because they drop recidivism rates by an average of eight percent, a reduction that generates approximately \$9,100 in taxpayer and crime victim benefits. This same BCA also showed increased contact with parole officers did little to decrease recidivism, justifying the legislature to move funding away from parole-based programs and shift it to more effective programs. However, he also noted there is no evidence that BCA is used systematically during legislative sessions to consider real-time projects for influencing legislation.

Denis Culhane, Professor, University of Pennsylvania, and his colleagues found the average homeless person in New York City living with mental illness in 1999 cost the city \$40,000 in services, and despite the expense they were still living in a cardboard box, which was not a good return on taxpayer's

investments. Individuals who were housed used \$16,200 less a year, which was roughly equal to the cost of the housing intervention. From a purely economic point of view, about 95 percent of the costs of the intervention were recouped in decreased use of services.

Kimberly Thompson, Associate Professor, Harvard University, and **Jonathan Wiener**, Professor, Duke University, noted that in dealing with complex global problems, advocates have had to fight against oversimplifying. BCA gives policymakers tools to help them deal with and think about complexity.

John Morrall, Branch Chief, U.S. Office of Management and Budget, gave a note of optimism when considering improvements in federal program analysis. He pointed out when the Office of Management and Budget (OMB) started assessing federal programs, over half of all programs were rated as ineffective or failing to demonstrate results. Now the rate is down to 20 percent, representing a vast improvement in the quality of definitions of success. Evidence-based policy is starting to be supported by the Department of Education and the Department of Health and Human Services.

On a technical note, shadow values can be attached to all non-market items. These shadow prices have to be added onto the dollar impact of the program so that any analysis includes both the marketed and non-marketed benefits. On average, shadow value estimations show the non-market value of these effects is at least as big as the marketed effect. This means the rate of return is approximately double what is commonly reported in the literature; for example, when you look at the effects of an additional year of schooling.

Jonathan Fanton, President, John D. and Catherine T. MacArthur Foundation, presented an overview of the MacArthur Foundation's experience with BCA. He talked about the Youth Mental Health Network, which showed programs that helped troubled youth stay with their families and attend school rather than going to a group treatment center yielded \$7 in benefits to society for every dollar in program costs. Fanton also described the Perry Preschool study, a project that really brought BCA home to him as a worthwhile strategy. The study began in 1962 and looked at the impacts of early education on a broad range of outcomes over a longer timeframe than other policy analyses during that era. This carefully designed preschool experience affected future employment and income, federal taxes paid, and money saved over time by less involvement in the criminal justice system and lower demands on welfare. It ultimately became a model for Head Start and social policy experimentation that evolved over ensuing decades.

Implications for Future Work

Government Acceptance

In order for BCA to become more accepted in policy decisions, **Robert Bradham** said more specific results are needed rather than broad ranges. At a minimum, decisionmakers need to understand why a broad range exists. Another significant impediment to using benefit-cost data to inform policy decisions is a lack of local data, which can be used to show the return in local communities

He also noted current decisions are not made on the basis of statistics and evidence, but made based on lobbying power – the only uncertainty is whose lobbying power is greater. As long as it operates this way, Congress will be providing \$300 million per year for the private jet industry, a tiny amount of the overall budget but enough funding to provide prenatal care to every mom in the country.

John Morrall pointed out the charges leveled at BCA by its critics are mostly wrong and, in fact, contradicted by Circular A-4 of the OMB. In his 33 years in the White House, the big battle has not been ensuring that we do not make blind decisions using benefit-cost analysis; rather, the battle has been about getting decisionmakers to even look at BCA. Originally, BCA was a bipartisan effort, but now both parties are attacking it.

John Graham, Dean, Indiana University, suggested a potentially powerful change would be to bring an agency like the Congressional Budget Office into an analytic role around original legislation, and **Jonathan Wiener** pointed out this is now being done in the European Union.

Principles & Standards

Throughout the conference, presenters noted it is still difficult to compare among different interventions. This highlights the important role principles and standards will play in increasing the use and acceptance of BCA. The work on principles and standards has the potential to foster dialogue and create a productive place for dynamic tension and conversations between researchers and government.

Kimberly Thompson and **Jonathan Wiener** noted there has to be significant interaction between analysts and people who own the problem. Thompson mentioned several lessons that should be integrated into future principles and standards. For example, seeking a full portfolio of important consequences should be prioritized above seeking a precise quantification of a narrow set of benefits and costs, and ignoring others. Costs should not be narrowly focused on administrative costs, and analyses should assess international and domestic impacts. Thompson also advocated for applying BCA more widely, including legislation and rulemaking, rather than limiting it to risk regulation. She advocated the establishment of a central expert oversight body, and supported a profession that would learn over time through studying differences across agencies and countries.

V. Kerry Smith, Professor, Arizona State University, and **David Weimer** also made highly relevant suggestions for proceeding with analysis of social programs. Smith suggested practitioners should adopt a model that was successfully used to evaluate energy models, including a shadow price modeling forum where two or three independent teams are charged with making their analysis transparent, and providing every level of detail about what they do in the process of their research. The teams would work independently and meet periodically with a group of external reviewers that include both supporters and skeptics of the efforts to evaluate programs. This program would take approximately three years and be relatively inexpensive with potentially huge payoffs.

Weimer illustrated a way of visualizing principles and standards along two axes. On the vertical axis, standards range from methods of analysis to standards of transparency. On the horizontal axis, is the question of how binding the standards are, from advisory to mandatory. The northwest quadrant comprises advisory standards that address methods; for example, the U.K. Treasury Green Book and the Environmental Protection Agency guidelines for preparing economic analyses. These are both very sophisticated and fairly comprehensive, but advisory. The National Oceanic and Atmospheric Administration (NOAA) panel on contingent valuation is another example of advisory standards, but it was a one-time shot that asked whether contingent valuation is ready for use, and if it is, what methods should be used. In the southwest quadrant are mandatory rules about the content of an analysis – required techniques and specified parameter values – like the old OMB Circular A-94 that required everyone use a seven percent discount rate, which is now widely regarded as too high. The northeast quadrant contains advisory standards that give advice relating to transparency. For example, many social science journals require an author to archive his or her data in a public place so that it is available

for peer review. The southeast quadrant addresses mandatory transparency such as requiring agencies to post all of their BCAs and provide an opportunity for public comment to strengthen public involvement in the process and increase accountability and transparency.

Time Sensitivity

The conference positioned scholars and practitioners in a place to push BCA over the next few years, and the sense from participants was there is a window of opportunity that may close if progress on BCA integration is not made. If, in the next few years, practitioners and scholars do not rise to the challenges discussed at this conference, lobbying power rather than careful benefit-cost analyses may shape future policy decisions.

The Future

The conference made clear that people working in the field see the use of BCA for the analysis of social policy as currently useful. They also recognized its potential is not fully realized. The following list captures recommendations for more effectively advancing social policy through BCA:

1. Increase the use of BCA at the state and local levels
2. Arrange for OMB to work more closely with Congress in considering possible and pending legislation
3. Develop better databases
4. Increase the integration of disparate databases
5. Give more attention to the use of BCA to analyze social programs, because such attention has the potential to significantly increase the effectiveness of attempts to address social ills
6. Give as much attention to marketing BCA and the forum in which BCA work is presented as to its substance
7. Use BCA to organize and aid in the presentation of complexity
8. Further develop principles and standards for BCA to aid in increasing the quality and comparability of different analyses

What is additionally apparent from this conference is that future conferences can create synergy, increase cooperation among analysts, and bring greater notice to the uses of BCA. The MacArthur Foundation deserves credit for focusing on a neglected area with the potential to improve the lives of many.