

*Introduction: Issues in the
Development of Principles and
Standards for Conducting Social
Benefit-Cost Analysis*

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What might we be talking about?

- Should principles and standards exist?
- Are there examples, analogies, or experience?
- What might be priority issues?
- Any next steps?

Should principles and standards exist?
Are there examples, analogies, or
experience?

- Might P&S improve quality? Credibility?
Auditability?
- Improve comparability across Gov't
investments?
- Professional organizations and
analytical standards ?
- Agency, OIRA experience with P&S?

Table I.1: Summary of Hierarchy of Generally Accepted Accounting Principles

| Category | Principles of accounting for | |
|----------|---|--|
| | Nongovernmental entities | Federal governmental entities |
| a | Financial Accounting Standards Board (FASB) <i>Statements and Interpretations</i> , Accounting Principles Board (APB) <i>Opinions</i> , and American Institute of Certified Public Accountants (AICPA) <i>Accounting Research Bulletins</i> | FASAB <i>Statements (FASAB) and Interpretations</i> , and AICPA and FASB pronouncements if made applicable to federal governmental entities by a FASAB <i>Statement and Interpretations</i> |
| b | FASB <i>Technical Bulletins</i> and, if they have been cleared, AICPA <i>Industry Guides and Statements of Position</i> | FASAB <i>Technical Bulletins</i> and, if they are specifically applicable to federal governmental entities, cleared AICPA <i>Industry Guides and Statements of Position</i> |
| c | Consensus positions of the FASB Emerging Issues Task Force and cleared AICPA <i>Practice Bulletins</i> | AICPA <i>Practice Bulletins</i> , if specifically applicable to federal government and cleared by the FASAB, and technical releases of the FASAB Accounting and Auditing Policy Committee |
| d | AICPA accounting interpretations, “Q and As” published by FASB, industry practices widely recognized and prevalent, and the FASB, AICPA audit guides, SOPs, and practice bulletins when they have not been cleared. | Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the federal government |
| e | Other accounting literature, including FASB concept statements, AICPA <i>Issues Papers</i> , International Accounting Standards Committee statements, GASB statements, interpretations, and <i>Technical Bulletins</i> ; pronouncements of other professional associations or AICPA Technical Practice Aides; and the regulatory agencies and accounting textbooks, handbooks, and articles. | Other accounting literature, including FASAB concept statements; pronouncements in categories “a” through “d” of the hierarchy for non-governmental entities when not specifically applicable to federal governmental entities; FASB concept statements; GASB statements, interpretations, <i>Technical Bulletins</i> , and concept statements; AICPA <i>Issues Papers</i> ; International Accounting Standards Committee statements, pronouncements of other professional associations or regulatory agencies ; AICPA technical practice aides; and accounting textbooks, handbooks, and articles |

OIRA based scorecard adapted from Hahn and Dudley (2007)

Necessary but not sufficient for quality?

| Item Number | Variables | CWIS/Farrow (subject to revision) |
|---|---|-----------------------------------|
| Estimation of Costs | | |
| 1 | Stated costs exist | Yes |
| 2 | Quantified at least some costs | Yes |
| 3 | Monetized at least some costs | Yes |
| 4 | Monetized all or nearly all costs | Yes |
| 5 | Provided point estimate of total costs | Yes |
| 6 | Provided range for total costs | Yes* |
| 7 | Associate costs w/ federal Government | Yes |
| 8 | Associate costs w/ non-federal government | Yes |
| 9 | Associate costs with producers | Yes |
| 10 | Provided best estimate and range for total costs | Yes* |
| Estimation of Benefits | | |
| 11 | Stated benefits exist | Yes |
| 12 | Quantified at least some benefits | Yes |
| 13 | Monetized at least some benefits | Yes |
| 14 | Monetized all or nearly all benefits | No |
| 15 | Provided point estimate of total benefits | Yes |
| 16 | Provided range for total benefits | No |
| 17 | Monetized safety benefits | N.A. |
| 18 | Monetized health benefits | N.A. |
| 19 | Monetized pollution reduction benefits (not health related) | N.A. |
| 20 | Monetized pollution reduction benefits (health related) | N.A. |
| 21 | Provide best estimate or range for total benefits | No |
| 22 | Provided best estimate and range for total benefits | No |
| 23 | Monetized any health-related benefits | N.A. |
| Comparison of Costs and Benefits | | |
| 24 | Calculated net benefits | Yes |
| 25 | Provided a point estimate of net benefits | Yes |
| 26 | Provided a range for net benefits | No |
| 27 | Calculated cost effectiveness | Somewhat |
| 28 | Provided a point estimate of cost effectiveness | No |
| 29 | Provided a range for cost effectiveness | No |
| 30 | Provided a point estimate or range for total cost effectiveness | No |
| 31 | Had positive net benefits | No |
| 32 | Calculated net benefits or cost effectiveness | Yes |
| 33 | Calculated net benefits and cost effectiveness | Somewhat |
| 53 | Calculated both point estimate and range for net benefits | No |
| 54 | calculated either point estimate or range for net benefits | Yes |
| Evaluation of Alternatives | | |

Priority Issues and Next Steps?

GAO workshop on P&S for Economic Performance Measures such as CBA

- Develop a minimum set of principles and abbreviated guidelines
- Develop an independent and flexible organization to provide guidance and develop standards
- Limited guidance on assessing unquantifiable benefits, equity, and distributional effects.
- Lack of agreement on some key values.
- Lack of guidance on tools that do not monetize outcomes, such as multi-objective analysis
- Develop guidance for dealing with Homeland Security issues
- Develop one-page summaries and scorecards of economic performance analysis; use expert review to provide procedures and strategies.
- Standardize some key values.

Panel

- **Arnold Harberger**, Distinguished Professor of Economics, UCLA, and Current/Founding President, Society for Benefit-Cost Analysis
- **Lynn Karoly**, Senior Economist, RAND Corporation, former RAND Director of Labor and Population
- **Lester Lave**, Harry B. and James H. Higgins Professor of Economics and University Professor, Carnegie Mellon University
- **David Weimer**, Professor of Public Affairs and Political Science, La Follette School of Public Affairs, University of Wisconsin

Back-up slide

Other issues and next steps?

- Common values? e.g. FBI violent crime index (add crimes)
- Issues?
 - Quantification of uncertainty
 - Reporting format...more quantity and value information?
 - Linking risk assessment and benefit-cost
 - Is multi-attribute utility benefit-cost? Can it be?
 - Precision, when is some number better than no number, and vice versa
 - Distribution across income, race, geography, gender..
 - Operationally distinguishing transfers from efficiency impacts
 - Tax excess burden
- Any suggested next steps?