
Is it progress if a cannibal uses knife and fork?  
--Stanislaw Lec, *Unkempt Thoughts*

The preceding quote captures the essence of *Priceless*, a remarkably well-written book by an economist (Ackerman) and an environmental law professor (Heinzerling), hereafter AH. Through many anecdotes, AH argue that benefit-cost analysis is fatally flawed for public sector decisions, frequently resulting in outcomes that sensible people find both bizarre and inappropriate. The typical activist will find the book very appealing and persuasive, while the typical economist will likely be uncomfortable with both the arguments and the emotional tone. There are good reasons for both reactions. However, a careful reading of AH should reduce smugness on the part of economists who see nothing wrong with applied benefit-cost analysis.

In part, environmental and health activists will like *Priceless* because it places great emphasis on the very real problems of valuing outcomes in the public sector. What, for example, is it “worth” when a policy changes the probability of death? AH conclude, from a nice discussion of the issues involved, that many such outcomes are fundamentally impossible to price in the way that is required for benefit-cost analysis. Activists will also likely enjoy AH’s barbs aimed at those attempting such valuation (e.g. Kip Viscusi’s VSL measures). AH argue (p. 234) instead for “an attitude rather than an algorithm,” claiming marginal willingness-to-pay to be impossibly difficult to quantify in practice.

Activists will also share AH’s equity views which further undermine the policy relevance of aggregated marginal willingness-to-pay in public sector decision-making. The impoverished of the world have a smaller marginal willingness-to-pay for *anything*, including policies protecting their health and environments, than do the rich (Larry Summers being on AH’s hot seat here). To attempt to provide public good levels and locations (for location-specific public goods) as they would be provided by a perfectly-
functioning private market, were it able to exist, is taken by AH to be unfair.

I approached the reading of *Priceless* with hope since I also have very strong misgivings about benefit-cost analysis as it is currently practiced. For example, benefits might be dramatically understated because there is no incentive to generate income if you cannot get more of what you want by doing so (see Graves 2002 at http://spot.colorado.edu/~gravesp/GravesRevtext.htm for details). That is, if what you care about are ordinary private goods, you will know that you can acquire them if you generate the income to do so. However, to the extent that you care about goods such as clean air, species preservation, CO₂ reduction, expanded wilderness areas and the like, generating income does not enable you to get what you want; since leisure is valuable, you will therefore under-generate income. You will look, to economists, like you have little marginal willingness-to-pay, despite very large public good valuations. Hence, the income levels at which benefit-cost analysis is being conducted are too low--and all of the ungenerated income would have been spent on public goods, apart from general equilibrium effects.

It was arguments akin to the preceding I was hoping to find more of in *Priceless*. Illustrating further, what is the appropriate jurisdiction over which the benefits and costs should be calculated? Americans care about whether the giant panda is preserved, but China is unlikely to consider our preferences (CO₂ abatement provides a particularly thorny example of jurisdictional problems). The distinction, in the case of air quality, between primary and secondary standards is similarly irrational (one should add up all the benefits a given policy generates to compare them to the costs, not just a portion of them). Damages to other species that humans *do* care about are seldom included in the benefit calculations of an environmental policy. That benefits for normal public goods will grow over time due to both rising income and rising population is typically ignored in practice, yet the combined effects could easily offset discounting impacts (AH discuss discounting in a chapter called “Honey, I Shrunk the Future”). And, of course, the magnitude of the
physical effects are in many cases as uncertain as the values to be attached to them, the latter being the specific concern of AH. Yes, there are certainly a great many problems in the conduct of benefit-cost analysis.

Ken Boulding used to speak of the “tragedy of the radical,” arguing that even valid criticism of the established way of doing things is of little value in the absence of a preferred alternative. This is the problem that many mainstream economists will have with AH’s *Priceless*. We have to make decisions. That some of these decisions are difficult does not alter the fact that they are necessary, as a matter of scarcity. The essence of rationality is to compare the advantages with the disadvantages of alternative courses of action, pursuing those with highest net advantage. The use of dollars, *per se*, is of no consequence—real, physical effects either are or are not going to occur as a result of a public policy decision. Some of the benefits and most of the costs automatically come in dollar terms, making dollars the most convenient unit of account to gauge the (*inevitably occurring*) advantages and disadvantages. Attempting this calculation, particularly with sensitivity analysis to alternative values when they are highly uncertain, allows at least rough comparison/ranking of projects. This is necessary to prioritize the virtually limitless list of competing health and environmental projects, something that having the right “attitude” does not allow.

AH would retort, with some empirical justification, that tax cuts and military spending decisions are not made on benefit-cost grounds, so decisions about health and the environment should not be made that way either. This is particularly so if political tampering renders objective benefit-cost analysis unlikely. Moreover, AH would assert that many very good decisions were made without reliance on benefit-cost analysis in the 1970s and 1980s.

Many traditional economists will still feel that AH “throw the baby out with the bath water” in arguing that benefit-cost analysis should be scrapped, rather than greatly improved. But *Priceless* makes some important arguments that deserve greater discussion
within the economics profession.

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