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COST-BENEFIT ANALYSIS AND ENVIRONMENTAL REGULATIONS

DANIEL SWARTZMAN, RICHARD A. LIROFF, and
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Coherent books seldom emerge from collections of conference papers that often lack a unifying focus and are of uneven quality. Concrete examples drawn from a single state often fail to stimulate general interest. This book is a notable exception. Each chapter was first presented at an October 1980 forum on cost-benefit analysis jointly sponsored by the Conservation Foundation and the Illinois Institute of Natural Resources. Several of the papers reported on the experience of Illinois in implementing a state law requiring economic impact assessments of environmental regulations. The editors met the challenge by integrating material into some overall themes, and by using the case example to join theoretical arguments with actual experience.

Dispassionate treatment of cost-benefit (c/b) analysis is difficult in the current political environment. C/B calculus has become shorthand for regulatory reform which, in turn, has come to mean an attempt to undercut the environmental legislation passed in the 1970s. Under such circumstances, the economists' contention that c/b analysis is only an unbiased tool to provide useful information to decision making evokes a warranted skepticism. The world in which c/b ratios are calculated is not the objective arena of the analyst, but instead a political environment in which assumptions, methods, and results are likely to vary with the values, interests, and objectives of those in charge. Economists by themselves are unlikely to be able to treat adequately the larger issues concerning the appropriate role of economic evaluation in environmental policy. It is, therefore, significant that more than half of the authors in this book are non-economists, and include political scientists, resource management experts, and planners.

The body of the book has two major parts, a description of experience to date, and a discussion of the controversies concerning benefit/cost analysis. Two papers that review Illinois' and federal application of economic analysis to environmental regulations conclude the results are mixed. On the one hand, a benefit/cost evaluation of the Illinois economic assessment program finds the benefits clearly outweigh the costs. The quality and quantity of information available to state decision makers was clearly improved, and decision makers appear to display greater sensitivity to

costs. On the other hand, experience at the federal level was found to be uneven. The abuse of *c/b* analysis in evaluating water resource projects in the past is well documented elsewhere, though defenders of economic analysis would argue that projects would have been worse had it not been that agencies were required to conduct analysis. The experience of the Environmental Protection Agency (EPA) with economic analysis is limited, partly because of some statutory provisions that mandate certain environmental standards be met, regardless of cost. From the mid-1970s onward, EPA has displayed increased concern about the cost of regulations. It is curious to observe that the budget cuts in the first two years of the Reagan administration have curtailed those units in the agency conducting analysis as sharply as others within EPA. Consequently, the official EPA data concerning whether or not environmental regulations are good economics may become less available. Other assessments vary according to the source. The book cites evidence from the 10th Annual Report of the Council of Environmental Quality that benefits of the air program clearly outweigh costs, while a study done for the Business Roundtable estimates the probable benefits are about one-half the cost. Such differences suggest that economic analysis is more an arena for generating questions and comparing data rather than definitively settling issues.

Controversies concerning *c/b* analysis are identified as methodological, political, and ethical. The chapter on methods is straightforward and deceptively simple, useful mainly for non-economists who are interested in identifying issues without trying to understand all their implications. The political chapter does better at dealing with complexities. For example, it acknowledges that tools like *c/b* analysis increase the influence of certain kinds of information in the decision process and discriminate against interests not possessing such information, and against interests not amenable to expression in the prescribed form. Further, the performance of analysis is costly in terms of time, money, skill, and concentration of power, and it is important to identify whether costs are justified, and upon whom they are likely to fall.

Perhaps the most useful chapter in the book is the one on ethics, by Steven Kelman. The utilitarian foundation upon which *c/b* analysis is constructed is such common currency in policy today that it has become difficult to take issue without appearing soft-headed and sentimental. The Kelman paper notes that, under certain circumstances, the utilitarian perspective delivers judgments that almost anyone would find morally reprehensible. Once it is possible to establish that economic analysis may suggest wrong answers, it is respectable to maintain that there are matters for which *c/b* analysis is useful, and others where it is not. The answer

does not lie in perfecting the c/b tool, since quantifying some values not normally quantified may reduce the value of such things. Rather, the more warranted conclusion is just where this book comes out, a middle course. Cost-benefit analysis has some valuable applications and some real limitations.

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