Can Cost-Benefit Analysis Be The Way To A Greener, Healthier, Rational World?

Q&A with Richard L. Revesz, co-author, with Michael A. Livermore, of *Retaking Rationality: How Cost-Benefit Analysis Can Better Protect the Environment and Our Health*

Why did you decide to write this book?

Richard Revesz: Each of us felt strongly that environmentalists, by ceding cost-benefit analysis to industry and anti-regulatory groups, were undercutting their effectiveness. The result: Weak or non-existent regulation, which is severely damaging the environment and public health.

During the Clinton administration, I served on an EPA advisory committee that was helping to write the rules for how cost-benefit analysis should be conducted. While industry groups were very effective at making their voices heard during these meetings, environmentalists essentially boycotted the process. They didn't want to be seen as endorsing – even tacitly – cost-benefit analysis, which many thought immorally put a price on human life and natural resources. But since they weren't in the room, they lost the ability to influence policy at a time when there was a sympathetic ear in the White House.

Michael came to the issue having worked as a campaign director for New York Public Interest Research Group (NYPIRG). During the fight over reforming the state's toxic site cleanup program, he saw that environmentalists sometimes lost battles because they weren't prepared to respond to the cost-benefit arguments presented by industry groups.

Our hope is that this book will inspire and empower environmentalists to engage in the debate over how cost-benefit analysis is conducted. The fact is, we can use economic data to advocate for a strong and sound environmental policy. Without cost-benefit analysis, we are essentially regulating in the dark, a bad idea when regulations can cost billions of dollars, and smart regulation can save lives. By fighting to mend, rather than end, cost-benefit analysis, environmentalists can retake the high ground and win the fight for strong regulation.

You argue that cost-benefit analyses have been misunderstood and misused by both industry and environmental groups. How?

Both industry and environmentalists operate from the same flawed premise: the idea that strong regulations that protect the environment are somehow economically inefficient. That simply is not the case.

The problem is that, as currently practiced, cost-benefit analysis is biased against regulation – it over-counts the costs of regulation and under-counts the benefits. For example, back in 1992, the Competitive Enterprise Institute (CEI), a group that describes

itself as devoted to free enterprise and limited government, filed a lawsuit in the U.S. Court of Appeals for the D.C. Circuit, seeking to overturn a decision by the National Highway Traffic Safety Administration (NHTSA) to strengthen fuel efficiency standards. CEI argued – and the court agreed – that NHTSA had failed to consider that tougher fuel efficiency standards could lead to additional car fatalities (as a result of people driving smaller cars). The court required NHTSA to count these additional fatalities as a regulatory cost, but the court didn't take into account that increased fuel efficiency yields reductions in greenhouse gas emissions. (NHTSA did not act to raise fuel efficiency standards for cars until Congress finally passed a bill last year, mandating improving fuel efficiency.)

Environmentalists and policymakers need to attack the biases inherent in such antiregulatory economic analyses. When cost-benefit analysis is used correctly, we will see that many strong regulations actually make good economic sense.

But what about the argument—made by some environmentalists—that it is immoral to put a dollar value on human life?

Cost-benefit analysis does not really place a dollar value human life; rather it gives a dollar value to risk reduction. Trading risk against money is a common experience. Every time a consumer decides to forgo a safety feature because of cost, he is placing a value on risk reduction.

Cost-benefit analysis applies the same principle on a larger scale. Some risks simply cannot be reduced to zero no matter how much money we spend, like cancer risks from chemicals already in the environment. We need some mechanism to tell us when to stop spending money in one area when it could be spent more productively elsewhere. Cost-benefit analysis uses people's own preferences about risk-reduction to make that determination.

For example, the Bush administration recently proposed a modest tightening of smog standards, which some environmental groups and a scientific advisory council at the Environmental Protection Agency contend is too weak. How much to raise standards depends on what dollar value we attribute to reductions in health risks from having less smog in the air. The Bush administration's choice of standards reflects a relatively low valuation of risk reduction. While even some environmentalists recognize that smog risks cannot be reduced to zero, they argue that the current proposal undervalues risk reduction.

One way industry groups have successfully blocked regulations has been to use the health-wealth argument. They argue that because wealthier people are healthier, and regulation stifles economic growth, public health regulations can actually make people sick. You say this is a myth. Why?

The idea of health-wealth tradeoffs has been influential well beyond its academic origins and has been used by courts, the OMB, and Congress against all kinds of regulations. But the health-wealth argument is a sham.

It is true that wealthier people tend to be healthier, but there is ample research that proves this correlation is not because wealth *causes* better health. Instead, poor health *causes* reductions in wealth because unhealthy people have to spend more money for health care and have to take time away from work. Also, higher levels of education tend to cause both better health and higher incomes. So, the notion that regulations result in so-called "statistical murder" is simply based on bad research and false assumptions.

You say public policy makers should consider the positive economic effects brought about regulation, not merely the negative impacts. Why, and how would this bring about better environmental policy?

Regulations always have both positive and negative side effects that have to be weighed. Just as aspirin used for pain relief has a negative impact – it can cause stomach aches – it also has the positive effect of reducing the risk of heart attack. Similarly, a cap on greenhouse gases, such as the cap-and-trade proposals before, would most likely decrease other pollutants like smog, particulate matter, acid rain, and mercury. The beneficial side effects of limiting greenhouse gas emissions are huge – studies have estimated ancillary benefits of over $100 per ton of carbon reduction due to reduction in other air pollutants. Failing to take them into account means that we regulate less, and less stringently, than we should.

On what upcoming issues will cost-benefit analysis be important?

No matter who is elected president, our next big environmental debate will be over what the United States should do about climate change. There is no doubt that cost-benefit analysis will play a tremendously important role in that debate. The only question is whether environmentalists will let themselves be pushed into a corner by biased, and deeply flawed, cost-benefit analyses. Anyone who wants to successfully advocate for strong greenhouse gas reductions will need to produce economic data to support that position. Emotional appeals will not be enough to convince the American public, and the political establishment, that tough action is not only morally required but economically responsible.

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