



Equity in Cost-Benefit Analysis

Rob Moore
Principal, Scioto Analysis

+ Equity vs. Efficiency

- Cost-Benefit Analysis primarily concerned with efficiency
- Can still reveal equity consequences
- Example: Tax and Transfer

+ Ability to Pay

- CBA measures from starting point of existing income distribution
- How do we inform policymakers interested in changing the income distribution?

+ Conceptual Problems

- CBA relies on dollars having same value
- What are the relevant social categories?
- What are the relevant weights?

+ Distributional Consequences

- Analysts should detail how costs and benefits are distributed throughout society
- Decision maker can weigh distributional consequences against net benefits

+ Cost-Effectiveness Analysis

- Helpful if primary purpose is to redistribute income
- \$/x
 - Number of people pulled out of poverty
 - Dollars to people under poverty line
 - Percentage reduction in gini coefficient

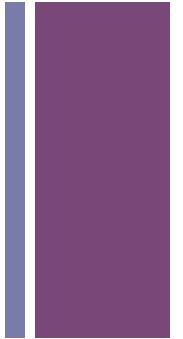
+ Distributional Weights

- Controversial
- Multiply costs and benefits depending on whom they are accrued to
- Often discouraged in CBA since it introduces subjectivity into the analysis
- Except...



Selective Sensitivity Analysis

- Treat distributional weights as an unknown factor
- Break-even analysis
- Help decision maker conceptualize equity/efficiency tradeoff





Determining Distributional Weights



- Income Taxation Rates
- Contingent Valuation
- Policymaker Preferences



Questions?