In *Cost-Benefit Analysis: An Ethical Critique* Professor Steven Kelman argues that cost-benefit analysis (CBA) should not be the primary tool in public policy decisions. Especially in judgements of environmental, safety, and health regulations, Kelman argues that there are severe technical and moral issues with applying market-based CBA to things not traded on the market. In perhaps his most compelling critique of public applications of CBA, Kelman explains that since an individual's private preferences often differ from their public preferences, the market-based methodology utilized by CBA to evaluate the costs and benefits of public policies are often not reflective of their true value.

P1: CBA used for public decisions requires valuation data from private transactions.
P2: The value placed on things in private, individual transactions do not reflect the value placed on them in public, collective decisions.
C: Public applications of CBA fail as a result of relying on skewed valuations of costs and benefits.

P1: In order to compare the costs and benefits of a particular decision and compare the consequences of one decision to another, CBA requires a common scale or denominator to quantify outcomes: typically money or a metric closely related to it. Since valuation in monetary terms of items is based on a market's willingness to pay for an item, it follows that CBA for public decisions must utilize valuation data from private market transactions. The necessity of market data to CBA is demonstrated by the reliance of CBA economists on market data even in cases where it does not exist. That is, for non-marketed items utilitarians will attempt to quantify their value by analyzing traded goods that have aspects of untraded ones. For example, one common way for CBA economists to measure the worth of clean air is to compare the values of houses in polluted areas to ones in clean locations.

P2: The crux of Kelman's argument is found in premise two where he explains that market-based valuations of things are not equivalent to their valuation in a public context. In other words, just because an individual person chooses to pay $X for item A does not mean that that same individual would pay that same price for a world with A. While I donate $X toward a local homeless shelter, I may contribute more toward a public policy that rids my area of homelessness. Not only do individuals often discount their "public preferences," but often contradict them in their private behavior. I may spend $500 at a casino every month but prefer to live in a world that regulates gambling.

The primary explanation for this discrepancy is that an individual's "consumer role" is not the same as their "citizen" role. While our preferences in the former role may be geared toward our instant desires and gratifications, our preferences in the latter role are geared toward our public values, the world in which we desire to live in. As Kelman alludes to, this discrepancy between private and public preferences is a principal reason we need a governing body in the first place:

to provide resources to things that our private, market-based decisions do not allocate enough value to. Put differently, basing public decisions on private behavior ignores the purpose of government. A governing body allows us to fulfill these ideal, public preferences through collective decision making; an individual consumer cannot allone fulfill their public preferences and therefore their private behavior should not be reflective of how they value them.

Kelman's argument is not a moral one but an attempt at showing the quantitative inaccuracy of CBA in evaluating (primarily) non-marketed goods. While I myself may have objections to attaching a monetary value to things like lives and natural environments, I do not agree that CBA is incapable of accurately doing so.

While calculating the benefits associated with public policies from market-based values will assuredly result in skewed valuations, I disagree that there exists no other approach to obtaining these values (premise 1 of Kelman). In his argument that market-based valuations consistently undervalue public benefits, Kelman implicitly acknowledges that these monetary values do in fact exist. In other words, Kelman does not contend that the price of a wilderness reserve is of infinite value, just that our individual WTPs[1] can not be aggregated to determine this value. The challenge then for CBA is to modify its current valuations. One possibility would be to scale up the low market-based predictions until this "sweet spot" is reached. Better yet, why not use the same tool we typically use for public decisions: voting (or polling). If voting is the typical mechanism we use for enacting our public preferences, it seems like a natural step to use this same mechanism for attaching value to the benefits of public policies. Kelman's statement that CBA "invariably" uses data from private transactions does not mean that this is the only approach it is capable of using, simply that there are *currently* no better alternatives. While it may be difficult to obtain the value of a human life by polling the entire world, targeted polling or voting opportunities in regions that may be impacted by public policy does not appear to be an unreasonable way to determine the monetary benefit of a prospective initiative.

Similar to protests against market-based valuation, objections to this method of polling that has now been coined "contingent valuation" (CV) generally revolve around the inaccuracy of polling as a valuation methodology. For instance, one popular critique claims that individuals are more likely to *overvalue* their WTP for non-marketed things in poll inquiries. That is, if you sequentially ask someone how much they would pay to save every animal on the endangered species list, the total sum would likely exceed their net worth. Other similar objections include the fact that individuals will typically value something they currently have more than obtaining something they do not have, cultural and socioeconomic biases, and so forth; the majority of objections hold this same overvaluation theme.

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[1] Willingness to pay

With regard to these objections, it is first important to note that they do not necessarily support Kelman's argument. If our public preferences as gauged by polling are *overvaluations*, then market-based valuations may not be *undervaluations* after all. If Kelman responds by saying that polling overvalues the price of non-market goods while the market undervalues them, then we have two concrete bounds to finally determine the right value!

With this being said, I agree that CV is a difficult tool to wield. Polling individuals to obtain an exact value for a non-marketed good is certainly difficult and less efficient than the market. However, this is not to say that it is impossible. In fact, it has been done successfully. For example, work done by the World Bank in 2011 shows the success of CV in measuring the WTP of environmental services in developing countries. The study further states that "the quality of CV studies could be substantially improved at only a modest increase in costs."[2] With more investment in this methodology, it is plausible that we will see increasingly accurate predictions.

In conclusion, the harsh truth is that a governing body is appropriated with so many finite resources in the form of money. Money spent to enact positive change in one area is money that cannot be used elsewhere. For better or for worse, these decisions do place monetary prices on non-marketed or priceless goods: the price of clean drinking water does exist. If we can improve the valuation methodologies behind CBA and overcome our hesitation to evaluate priceless goods it may lead to more efficient public decisions

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[2] https://openknowledge.worldbank.org/handle/10986/17891