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Conflict of Multiple Interests in Cost-Benefit Analysis

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16

Among the several quantitative approaches to public decision making which have become popular in recent years, cost-benefit analysis (CBA) is the most widely used. The use of this technique has increased enormously in terms of both the number and variety of problems addressed as it has been urged on administrators as a tool for doing policy studies. This increase is nowhere more evident than in the US Federal Government, where nearly every regulation and many programmes are subjected to this type of analysis as a condition of adoption. Executive Order 12291 (17 February 1981) required regulatory agencies to prepare impact analyses for any regulations that are likely to result in annual effects on the economy of \$100 million or more. The analyses must identify social costs and benefits and attempt to determine if the proposed regulation maximizes net benefits to society[1].

Yet, as an aid to public decision makers, this approach has the extraordinary deficiency of obscuring the conflict of multiple interests and, to some extent, separating evaluation from both politics and policy making. As it is generally practised, this technique seldom provides all the information needed for identifying a politically acceptable course of action to policymakers who must contend with reality-shaping factors in their political environment. As a result, "most evaluation studies, once completed, suffer a fate of benign neglect. They are received, perhaps publicized, but few exert a noticeable effect on making or remaking policy"[2]. As Wildavsky has pointed out, "frequently the analyst's work will be ignored because it is politically naïve"[3].

To be useful to the political policy-making process, analysis should be able to sum up the expected effects of a proposed policy on relevant groups and their attitudes towards it. When it does, its findings acquire a special significance that cannot be easily ignored by the policymakers. For if an effort is made during the analysis phase to determine and incorporate the political feasibility of a proposed policy and the constraints associated with its implementation, the policymakers will have been alerted to the political costs and benefits of each alternative in addition to its efficiency ratio. From the point of view of policymakers, evaluation is research that can help them carry out their roles and achieve goals they (not the evaluators) consider important. In what follows, CBA as a decision-making technique is reviewed briefly, its deficiency as it is generally practised is explained, and a method of incorporating political feasibility into analysis in order to make it a more useful policy-making tool is discussed.

An Approach to Evaluation

After the policymakers have considered a particular problem and surveyed some of the options available to deal with it, they may decide to seek the guidance of an analyst as to what the problem really is and what can be done about it. The analyst's first task, and perhaps the most useful, is to turn this request into a set of focused, researchable questions. By defining the problem, the analyst sharpens the focus of the discussion about the particular policy issue. Having developed this focus, the analyst is in a position to perform the analysis itself so that policy solutions can emerge on a foundation of systematic thought.

In most cases, the decision is not merely between action and inaction, since several programmes are potentially available for implementation. Rather, the decision makers must select a type of policy and identify the costs and benefits of each option as far as they can be analysed. That requires the specification of the objectives, (i.e. what government seeks to accomplish), the constraints (including financial, legal, among others) imposed on the decision makers, and the feasible alternative choices of programmes that might be selected to satisfy the stated objectives. CBA is a tool that can help to narrow the range of choice by developing useful information about the desirable and undesirable effects of public sector programmes or projects[4].

Simply stated, CBA is one of several techniques that seek to evaluate the total costs and consequences of a programme in a systematic manner. These values are quantified in comparable units and translated into a common measure, usually a monetary unit or units that can be transformed into monetary units. In this way, CBA manages to compare apples and oranges by giving each a price in dollars. The costs and benefits are then compared by computing either, first, a benefit-to-cost ratio, or, second, net benefits, or some other value, such as the internal rate of return. CBA mixes a commonsense approach to decision making (choose the alternative with the greatest net present value) with some accounting (keeping track of what goes into a programme and what comes out) and a little economics (to assist in quantifying benefits and costs). Thus, CBA provides a systematic set of procedures for assessing whether to undertake a particular programme and, where there is a choice of programmes, determining which programme should be preferred. With the more widespread use of CBA, the claim that a particular governmental activity is actually of some value can be examined in what appears to be an objective manner.

The general thrust of this technique is that government resources allocation decisions should meet tests similar to those employed in the business sector. Programme alternatives should be selected which will maximize the value of outputs from the resources allocated to them. Underlying this approach is the conception that government should only undertake programmes which compare favourably as to returns with those which would have been undertaken in the private sector had the resources not been transferred to governmental uses[5].

Economic versus Political Perspectives

This guideline for maximizing social welfare is not easy to abide by in practice. It rests on the premiss that the attainment of maximum social welfare should provide the dominant, if not the only, criterion for assessing public policy decisions; it assumes that a social welfare function can be developed which provides a preference ranking by society for some set of alternative strategies or policy options[6]; and it attempts to base evaluation of policy issues on an “objective” plane of formal logic and calculation[7].

In line with this approach, CBA focuses on the economic efficiency aspects of governmental activities; that is, on the identification and measurement of the “real” benefits and costs of these activities. Indeed, both CBA and the criterion of Pareto optimality have usually emphasized economic efficiency as a measure of preference satisfaction and as a basis for resource allocation decisions.

Of course, calculations of economic costs and benefits for each social group should be made whenever possible. Economic theory points to the “interpersonal comparisons of utility” that are involved in adding up costs and benefits across individuals (or groups) in an arithmetic fashion. However, if applied strictly, this criterion ignores the fact that often other values are more compelling in the decision-making calculus than least cost or even greatest benefits. In the face of many intangible, non-monetary social values and various immeasurables of importance, economic efficiency may not be the central concern. When programmes have goals that go beyond simply maximizing the return on public investment, a simple cost-benefit ratio is not an adequate criterion for choice[8]. A policy that provides benefits of \$1 million to group A and losses of \$500,000 to social group B is not necessarily a net gain of \$500,000 to social welfare. Depending on the nature of the group that benefits and the group that loses, the assessment of this policy is a task of either value judgement or political trading, not of arithmetic. Nevertheless, CBA essentially shares with the Pareto criterion a blindness to the identity of the gainers and losers and to the distribution of costs and benefits among individuals[9]. Thus “a dollar’s worth of additional income or cost is given equal weight, regardless of the persons, groups, or regions of the country that receive the benefit or bear the cost”[10]. And although various schemes have been suggested for dealing with this problem (see e.g.[11,12]), the philosophy underlying CBA does not lend itself to being sufficiently sensitive to the large number of influences that typically impinge on the decision-making process.

As a decision technique, CBA tends to employ an apolitical conception of rationality and ignore the mobilization aspects (advocacy, bargaining, and the exercise of power) of public programmes. Understandably, public officials are often unmoved by the force of analysis when their own interests or those of their party or of a group they want to protect are at stake[3, p. 297; 7, p. 435]. Under these circumstances, policy makers are presented with trade-offs between efficiency and some other goal, such as equity. To get more equity one has to give up some efficiency[13]. More often, they are forced to settle on compromise solutions that mirror the preferences of dominant interest groups and influential decision makers. An attempt to apply hard analysis techniques to the

public policy process will not explain behaviour, and often will not lead to “better” policies[14]. Even where analysis sharpens the insights of decision makers, it does not supplant political sensitivity that underlies the behaviour of policy actors, be they politicians, bureaucrats, interest groups, or voters[15].

Valuing Public Programmes

The conclusion emerges that governmental (social) CBA, unlike private CBA, must take into account a broader range of consequences and considerations. Quade has pointed out that “policy analysts must not ignore the essential features of politics. If they do, the policy makers may more often feel that to get things done it may be better not to attempt to use analysis[16]. For an alternative to be politically feasible, it must distribute the aggregate benefits and allocate the costs among the various interest groups in ways that reflect their political strengths. Starling agrees that unless the alternative selected is acceptable to the most influential interest groups and not too strongly opposed by others, implementation will be troublesome[7, p. 379].

In a pluralistic democracy, the central analytical task in valuing public programmes is to identify the parties at interest and the ways in which they would be affected by each alternative being considered. This aspect of the task of analysis may be best illustrated by an example. In its study of the subsonic aircraft noise problem, the National Academy of Engineers[17] first developed and considered a list of alternative strategies for dealing with the problem. The list included strategies ranging over possible designs, e.g. relocate airports, modify aircraft engines, modify landing and take-off flight profiles, require more transportation by surface, sound-proof residences near airports, or create a buffer zone around airports.

Then, the study identified the parties at interest as airline operators, airline neighbours, airport operators, airline passengers, aircraft and engine manufacturers, local taxpayers, local business, local government and federal government.

And each of these parties is affected in different ways by each of the alternative strategies. There is no royal road to valuation; one must consider the effects of each alternative on each of the parties at interest. For example, for the strategy of relocating airports, “airline passengers have demonstrated repeatedly that they prefer to patronize airports close to their homes or places of business” and “airline operators are extremely responsive to passenger preferences”. Therefore, while moving an airport to outlying areas would solve the aircraft noise problems for “airport neighbours”, that decision would be opposed by “airport passengers” and “airline operators”. It would be opposed also by “airport operators”, who would be concerned about the disposition of the investment in the existing airports and the magnitude of the investments in the new airport and how and among whom it would be apportioned[17, p. 87]. Similarly, local governments would be concerned about the loss of business, employment and taxes resulting from moving an airport to another jurisdiction. Furthermore, the financing of relocation would be beyond the capacity of local

jurisdictions and would have to come from the Federal Government. It is only after going through this sort of exercise for each alternative that one is in a position to evaluate and compare alternatives.

Although other parties at interest and their interests will be specific to each policy issue, there are some general approaches that have been developed to assist with this type of analysis. Gross has identified six general categories of interest groups – clients, suppliers, advisers, controllers and controlees, adversaries, and members of the public with opinions and these may prove a useful starting point[18]. Of course, not all categories will apply to every problem and analysts must accurately identify the applicable categories for each issue before proceeding.

In the aircraft noise problem, airline operators, airline managers, and local businesses are clients of the airport; the airport residential neighbours are members of the public with opinions. These categories do more than help identify the parties at interest, for the notion of a client implies a relationship, and the specification of the relationships of clients, adversary, and controller is halfway to a specification of the interests at stake.

The basic concept of identifying “participants” or “influentials” in the adoption of policy lends itself to modification in order to suit particular situations. Meltsner has suggested that analysts classify participants into supporters, indifferents (fence sitters), and opposers[19]. Using a simple table as in Table I, analysts would proceed to identify influentials who would fall under one of these categories.

Several methods of identifying influentials are available. Some individuals are well known through the daily give-and-take of administrators with clientele groups; others can be identified with the help of those who conduct dealings with them or are aware of their interest in certain issues. Gergen discusses the “reputational approach” to identifying the powerful or influential members of a community[20]. This method entails asking various “knowledgeable” people in a community to nominate persons whom they feel to be the most influential. In a city, for example, such information could be obtained from the city manager, mayor, Chamber of Commerce, university community, and the city’s newspaper editor. Depending on the issue, other sources could be large employers, banks, civic organizations, ex-officeholders, distinguished and/or wealthy citizens. The analyst’s task is simplified in several ways. Dahl[21], Polsby[22], and others have shown that there are only a few influentials involved with any single issue. Moreover, skilful analysts further simplify their task by aggregating potential participants by a common core interest. Starling recommends that “rather than

Table I.
Potential Influentials in
the Adoption of a
Particular Policy

Supporters	Indifferents	Opposers

list all influential black leaders in a community separately by name, the analyst simply puts down 'black leaders'. Or, rather than maintain separate categories for physicians, scientists, engineers and lawyers, the analyst may find 'professionals' a suitable and much more convenient substitute"[7, p. 453]. He goes on to illustrate the choice of categories relevant to the political feasibility of a city's criminal justice plan as including: mayor, black leaders, district attorney, federal judge and newspaper editor.

Another way of locating influentials in a community is to select those who occupy formal positions of leadership. This involves specifying the issue area of interest and then compiling a list of all persons holding formal positions that relate to that issue. Polsby has proposed combining this approach with the reputational approach to yield what he termed a "leadership pool". Whatever approach analysts choose to use, their purpose should be to generate information for presentation to the decision makers to enable them to consider changes in policy or programme that would satisfy at least some of the opposers and increase its acceptability.

Identifying Impacts on Affected Parties

These are the sorts of considerations that one has to work with in valuing alternative courses of action. The idea that any policy alternative can be fully valued in a quantitative fashion without considering its impact on affected groups is unrealistic. Havaerman put it this way: "Considering legislative decisions, this implies the need for a political process in which the full set of impacts of a decision on all citizens – the poor and minority groups as well as those with vested power – be somehow registered with decision-makers"[23].

As part of the analysis, an effort should be made to devise a method for determining the impacts of a proposed policy on affected groups and the intensity of their support or opposition. Having identified a number of influentials with respect to a given issue, the analyst would compile a shortlist of persons for whom the adoption of the policy would clearly alter the status quo. The analyst then conducts interviews with several individuals whose interests would be affected in some way. The purpose will be to determine the degree to which the issue is relevant to the respondents and their social or economic groups. By asking pertinent questions, the analyst could also determine the intensity with which respondents hold their views on the issue.

Growing use is being made by administrators, politicians and analysts of citizens' or community surveys which have become an accepted part of the ongoing political process[24, 25]. Sample surveys supplement existing information sources; they enable evaluators to obtain the responses of a representative sample of any programme's actual or potential clients prior to making judgements about the design or scope of a programme. Survey responses enable analysts to discover what citizens (or groups) think about particular policies and could alert them to pockets of opposition that need to be dealt with.

Combining the information obtained in interviews and from surveys with their own judgements, analysts will be in a position to present a comprehensive evaluation to the decision makers. In effect, the role of the analysts will be to ascertain the goals of the policy makers and consider the various ways by which they could be satisfied. The information they gather would enable them to exclude alternatives that diverge radically from what would be politically acceptable. In this way, the realities of political feasibility would limit the range of considered choices. If done by properly trained analysts, analysis is capable of informing public decision makers, who will bear political responsibility for the outcomes of their policy choices, of the true magnitude of the problem they face. When the political implications of various choices are indicated, policymakers will have a basis for the application of their judgement in arriving at the preferred (optimal) course of action.

Ideally, the analyst would identify all impacts of a proposed policy, establish cause and effect relationships where possible, measure and compare impacts in terms of the objectives of the policy (e.g. economic efficiency, equity, environmental quality). However, the task of valuing and cumulating the impacts of a public programme on affected parties is complicated in several ways. Since impacts or consequences of proposed courses of action lie in the future, they must be estimated. Uncertainty about the future may force analysts to limit themselves to the near-range consequences in order to increase the validity of the analysis. Moreover, since consequences are often not quantifiable in readily appreciated terms, such as cost, analysts are forced to resort to intuitive judgements. Finally, data may be lacking on the viewpoints of a particular potentially affected group with regard to a potential course of action, even when its interests are identified as affected. Still, such a group may be well organized and may be more likely than other groups to exercise its political muscle or even take legal action to kill or modify a programme. Evaluation of the possibility of such action is neither primarily a technical question nor a matter that can be resolved by simple CBA.

The analyst's task is to find and employ appropriate schemes for gathering and synthesizing as much pertinent information as possible relative to particular alternatives.

Characterizing Effects of Proposed Policy

The effects of a proposed policy can be characterized according to a simple scheme that classifies the impacts into categories and gives each a rating. Table II depicts a simple method of characterizing the effects of a proposed policy on pertinent affected groups. Using this scheme, one might sum up the expected effects of some proposed policy on a relevant group as FL, i.e. favourable and likely, or ULC.

More elaborate schemes that would allow narrative descriptions, finer gradation in the description of the impacts and presentation of each impact of a particular policy along with assigned ratings are possible. Table III summarizes the judgements of the analyst about the character of the primary

and secondary consequences of the identified impacts on their respective affected parties. To strengthen their argument, analysts may choose to attach to the analytic summary some discussion of the reasoning and judgements that led to the characterization reported.

The impacts of the various strategies considered on the different parties affected can then be summarized in some suitable fashion as in Table IV.

A more useful and telling method for predicting or estimating likely outcomes is depicted in Table V. This method enables the analyst to include all "influentials" or principal actors as well as interest groups. An actor is anyone important at a decisional point of consequence and can be an individual, a role, a committee, a group, a bureaucracy, a coalition, or even a state. This method enables the analyst to make calculations that reflect the political survivability of a policy. Based on these calculations of possible areas of consensus and conflict, analysts could design an alternative policy proposal which can achieve the requisite political support. They can also alert their superiors to the need for mobilizing support for a policy that is not assured of survival.

Nature of impact	Probability of occurrence	Effect of government action on impact
F Favourable	L Likely	C Controllable
U Unfavourable	UN Unlikely	UC Uncontrollable
? Unknown		? Unknown

Source:[17]

Table II.
Characteristics of the
Effects (Outcome,
Result, Impact) of a
Proposed Policy on an
Interest Group

Affected parties	Nature of impact	Character of consequences of identified impacts
Party 1		
P1.1	-	ULC
P1.2	-	F, UL, UC
Party 2		
P2.1		L +
P2.2		FL
P2.3		UL
Party 3		
1		
2		

Note: F = favourable; U = unfavourable; L = likely; C = controllable; UC = uncontrollable; ? = unknown; + indicates both favourable and unfavourable impacts. No entry is made where the impact is negligible or where no impact has been identified

Table III.
Impacts and
Characteristics of
Strategy X

These types of characterizations are necessary for two reasons: political decision makers are concerned to avoid supporting unpopular positions on important issues but they are also responsible for guarding the welfare of politically weak groups from the effects of policies which may be beneficial to some other social group. That is why trade-offs between the objectives of efficiency and equity exist in many public expenditure programmes.

Conclusion

CBA and similar quantitative evaluation techniques provide a great deal of information to decision makers about the relative efficiency of policies or projects under consideration. However, it is common to encounter in the literature of CBA the feeling that much may be left out but that little can realistically be done about it[26]. Most important among the types of information left out is what contributes to making a government agency both socially and politically relevant. As Wildavsky has noted, CBA does not include a systematic procedure for determining the political viability of considered alternatives[3, p. 296].

Table IV.
Characterization of the Impacts of Considered Strategies on the Set of Affected Parties

Affected parties	Strategy 1	Strategy 2	Strategy 3
P1	+	-	(+)
P2	-	+	-
P3	-	±	+
P4	+	±	(+)
P5	+	-	+

Note: + or - represents favourable or unfavourable impacts, respectively; () indicates that the impact is judged uncertain even though it has been characterized; + indicates favourable as well as unfavourable impacts

Table V.
Political Feasibility Analysis

Participants	Supporters	Indifferents			Opposers		
	+3	+2	+1	0	-1	-2	-3
	Issue position A			Political power B		Total support	
1	+3 to -3			Weak 1		A x B	
2				Average 2			
3				Strong 3			
4							
5							
-							
-							
-							
						Total	

Sources: [7, p. 451; 19, p. 860]



It is argued here that CBA, as it is generally practised, can be modified to suit the purposes of the actual decision makers, who must contend with considerations of equity, income-redistribution and political acceptability. Alternatives can, and must, be subjected to political assessment in order to determine their eventual feasibility of implementation and the constraints associated with their adoption. Clearly the "best" model for doing policy analysis is one that combines the known strengths of analytical approaches with a strategy that seems to offer the greatest potential for serving the informational needs of policymakers. The purpose is to ensure that analysis has concrete usefulness in addition to honing the skills of the analysts themselves. The vital contribution of analysis is to shift the focus of policy discussion from purely technical or economic questions towards issues based on more accurate perceptions of the empirical reality the policymakers are trying to influence.

In this form, policy analysis fits into the life of both the bureaucracy and political decision makers and permits analysts to define a useful role for themselves as technicians who serve political masters. As the work of policy analysts percolates through the bureaucracy, more and more officials at staff levels and among the policy-making leadership will come to appreciate their positive contribution embedded in reasoned, documented argumentation that can become the basis for decision making. This will improve the tenor of bureaucratic life and, hopefully, the quality of public policy.

Moreover, if analysts approached their task of connecting particular situations to appropriate action with political rationality in mind as well, it should help alleviate a traditional tension between policy analysts and policymakers that arises out of the different values to which they adhere. A basic objective of elected and appointed officials who manage the system is, quite understandably, to continue in office. The objectives of good policy analysts do not necessarily coincide with this highly specific set of alternatives. Nevertheless, the point is that if the work of analysts is to be relevant and have a chance of being incorporated, it should present "all" the information on which a decision could be based. The burden of accommodation rests on the policy analysts, but the accommodation should be in a form which does not strip analysis of its highest potential value to the political process.

The proposed framework requires analysts to become more sophisticated with respect to issues of power and influence. Their education and training must emphasize more than they do now skills associated with appreciating the political role of policymakers, identifying parties at interest, and the ways they would be affected by particular proposed policies. When skilled analysts produce well-articulated studies, complete with feasibility calculations, they will make a contribution to extending the role of rationality in the public decision process in both its economic and political senses.

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