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Book reviews

Principles and Standards for Benefit–Cost Analysis, edited by Scott Farrow and Richard O. Zerbe Jr. Published by Edward Elgar, 2013, 447 pages, ISBN: 978 1 78195 343 3, AU\$165.00 (hardcover).

Benefit–costs analysis (BCA) is nothing more than a policy or project assessment method that quantifies in monetary terms the value of all impacts of a policy/project to all members of society. Calculating cost and benefits of private decisions made by individuals and businesses is quite straightforward. Yet, calculating costs and benefits from the society's perspective is quite a challenging task.

Three major problems arise in any BCA. First, monetising the benefits of policies/projects that provide public goods requires calculating individuals' willingness to pay for those projects/policies. Since there are no market prices, practitioners need to find ways to elicit individuals' willingness to pay for the public goods. Second, in the case of goods and services for which markets are available, prices would not be enough to capture social benefits and costs. This is an issue especially when there is a strong market imperfection such as the existence of externalities and monopolies. In this case, one needs to find a way to incorporate benefits and costs that are not captured by prices into the analysis. A third issue is to find the 'correct' social discount rate. Most social benefits and costs generated by public projects/policies extend over time. Hence, future benefits and costs should be discounted with an appropriate social discount factor. Since small changes in a discount rate can make a huge impact on the final decision, finding the right social discount rate stays an important task in front of practitioners.

Although BCA is vital in public decision-making and affects individuals' welfare substantially, it is a field that, in my opinion, is largely ignored by economists both in research and teaching fronts. This book is one of the sporadic attempts to vitalise the field following the launch of the Journal of benefit–cost Analysis. The book consists of ten recently published journal articles written by active researchers in the field (nine out of ten articles were published in the JBCA) and a concluding chapter.

The most important steps of BCA can be stated as follows: (i) predicting the impacts quantitatively; (ii) attaching monetary values to all impacts; (iii) calculating present values by discounting; (iv) computing the net present value of each alternative; and (v) conducting sensitivity analysis. This book documents recent developments on the aforementioned BCA steps, so that practitioners can have up-to-date information when they engage in a BCA.

Each chapter in the book deals with an important and common issue faced when conducting a BCA. The first six chapters deal with quantifying and monetising the impacts generated by social policies such as education, crime

prevention and income-support programs. The first chapter takes a generalist approach and documents the major issues facing application of social policy. The subsequent four chapters specialise on generating standards for most commonly analysed social policies: childhood interventions, public health preparedness and pandemic mitigation programs, crime and safety. The remaining chapter describes an approach for incorporating general equilibrium effects into BCA of social programs.

The rest of the book deals with issues that can arise in any type of BCA, that is issues that are not specific to social policies. Chapter 7 deals with finding an appropriate discounting rate for public policies and projects. Finding the ‘right’ discount rate is the most widely discussed methodological question within BCA. This is mainly due to its power on delivering substantially different results with a small variation. Chapter 8 tries to respond the concerns and critiques on standard BCA by introducing a new methodology, namely *ethical BCA*. Chapter 9 offers a nice discussion regarding the importance of distributional issues in BCA. Most of the traditional BCA ignores the fact that public policies and projects affect individuals differently. Although the overall effect of a policy/project provides a certain guideline regarding whether the project should be undertaken or not, ignorance of distributional concerns can lead to unfavourable outcomes in terms of fairness. Hence, a practitioner should not only be concerned with efficiency, but also be concerned with equity.

I find Chapter 10 is the most interesting chapter in the book. It tries to incorporate various ideas from behavioural economics to BCA. Behavioural economics develops models that take largely ignored behavioural traits such as time-inconsistency, habit persistence, altruism, social status and religious beliefs into account. It is a fast-growing field of economics and helps us to understand human behaviours and the consequences of those behaviours better. There is no doubt that BCA can benefit from behavioural economics in a large degree especially in monetising and discounting the impacts. Chapter 10 starts with providing a brief introduction on the differences between standard economic paradigm and behavioural economics. Then, it discusses the possible implications of the developments in behavioural economics research on a BCA.

The book concludes with a self-containing Chapter 11. This chapter can, on its own, serve as a good guideline for principles and standards for any type of BCA in general and BCA of social policies in particular. Time-constrained professionals can benefit from reading Chapter 11 even without consulting to the other chapters in the book.

The book’s main aim is to ‘develop principles and standards so that different practitioners can produce similar set of results when they face similar problems’. To achieve this objective, the book touches all the major issues in the field of benefit–cost analysis by giving particular attention to social policies. In this respect, this book can be a very valuable asset for practitioners who seek for solid guidance. Yet, from an academic point of

view, the book does not offer any new ideas, insights, and methods. It is a collection of previously published papers, which will mostly be known by researchers in the field already.

Overall, the book does a good job collecting interesting papers regarding various issues in BCA. It can be a quite valuable asset for practitioners who often face the challenges mentioned in the book. Having a good guideline will definitely increase the quality of analyses done. The book can also help establishing better standards in the profession. Benefit–cost analyses of social policies are relatively a new field and hence attempt to build unifying principles and standards that are quite valuable to build a well-functioning practice. My only concern is that the book does not provide any remedy regarding the lack of the novelty, from which I believe BCA suffers much. Chapters regarding ethical and behavioural benefit–cost analysis are interesting but not powerful enough to enhance the readers' horizons. The book could have been more interesting and reach a wider audience if it established a better balance between establishing standards and revitalising the field. In its current state, it will mostly appeal to BCA practitioners.

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Transitioning to a Green Economy: Political Economy of Approaches in Small States, edited by Nadine Smith, Anna Halton and Janet Strachan. Published by Commonwealth Secretariat, London UK, 2014, 213 pages, ISBN: 978-1849291279; AU\$ 129.00 (paperback).

'Green Growth' has attracted a great deal of attention in recent years, comprising one of two key themes at the June 2012 United Nations Conference on Sustainable Development (Rio +20). The term is widely used by small states, many of which are especially vulnerable to climate change and other environmental challenges. In our region, the Pacific Island Development Forum has established the promotion of green growth as its official *raison d'être*.

Despite this, there remains a lack of clarity regarding exactly what a green economy entails or should look like in practice. This is a legacy, no doubt, of conflict that surfaced in the lead up to Rio+20 about the term's definition, which was never fully resolved. It is especially unclear what Green Growth looks like in small states, which suffer from a range of unique challenges.