

Preface

Cost-benefit analysis has long been a core tool of public policy. The systematic process of calculating the benefits and costs of policy options and projects is now widely regarded as an essential step in the policy process. It helps decision makers to have a clear picture of how society would fare under a range of policy options for achieving particular goals. This is particularly the case for the development of environmental policy, where cost-benefit analysis is central to the design and implementation of policies in many countries.

The OECD has a long tradition of promoting the use of cost-benefit analysis in environmental policy development. This work has covered a wide range of topics, from the evaluation of environmental damages in monetary terms to the role of discounting to case studies of the application of cost-benefit analysis. The 2006 OECD publication on *Cost-Benefit Analysis and the Environment: Recent Developments* has been a reference publication for more than a decade.

This report, *Cost-Benefit Analysis and the Environment: Further Developments and Policy Use*, provides a timely update on recent developments in the theory and practice of cost-benefit analysis. Many important theoretical developments have taken place over the last decade, not least in relation to the economics of climate change and to the treatment of uncertainty and discounting in policy or project assessments. For example, increasing attention has been devoted to assessing the social costs of carbon (SCC). Since carbon emissions have global impacts that vary across time and space and occur in many different sectors, the calculation of the SCC is complex, requiring inputs from many different disciplines. This book explains the underpinnings of the SCC and reviews the different approaches and uncertainties in its estimation, addressing key questions that will influence the policy relevance of such calculations: What path will emissions take? How will emissions affect temperatures? How will temperature changes cause damages?

The report also updates the technical and practical developments in the key issue of discounting. While the theory of social discounting shows clearly how the social discount rate should be defined, in practice numerous questions arise, especially when considering actions with implications for generations in the far distant future: intergenerational projects and policies. In such contexts, there is strengthening theoretical and empirical support for the use of discount rates that decline with time. But this has important implications for the policy debate around major environmental issues such as climate change, air pollution and water management.

The book presents new information on the current use – or lack of use – of cost-benefit analysis in different *ex ante* and *ex post* contexts. There are large variations in the extent to which cost-benefit analysis is being used in environmental policy development across countries. There are also wide differences in the extent to which various environmental impacts are being taken into account in these analyses, across economic sectors and across analytical contexts. For example, in general, energy sector investments and policy proposals

are relatively well covered in cost-benefit analyses. But there is often far narrower coverage of non-climate environmental impacts in those assessments than in assessments of investment projects in, for example, the transport sector.

The political economy dimensions of the use of cost-benefit analysis are also explored in the book. While cost-benefit analysis provides extremely valuable information for decision-makers, it necessarily forms just one part of the complex set of considerations that must be taken into account when dealing with challenging environmental issues. How cost-benefit analysis is used in practice, and the constraints and challenges in this use, is critical to ensuring that decision makers have a full understanding of the “use and abuse” of cost-benefit analysis. Clearly, providing decision makers with the flexibility needed in order to “act politically” or meet other policy objectives is essential. But this will shape the nature of the use of cost-benefit analysis in particular ways. Throughout this, the role of CBA remains one of explaining how a decision should look if an economic approach is adopted.

This book is the result of a strong collaboration between leading academics and the OECD countries, working under the auspices of the OECD’s Environment Policy Committee. We stand ready to support countries in the implementation of the practices and tools detailed in this study. I am confident that this work will significantly enrich the understanding of cost-benefit analysis and strengthen its use in both OECD and non-OECD countries in tackling our many shared environmental challenges.



Anthony Cox

Acting Director, OECD Environment Directorate



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