UNIT 5  COST-BENEFIT ANALYSIS

Structure

5.1 Introduction
5.2 Objectives
5.3 Foundation Principles of Cost-Benefit Analysis
  5.3.1 Explicit Valuation
  5.3.2 Consequential Evaluation
  5.3.3 Additive Accounting
5.4 Structural Demands
5.5 Evaluative Indifferences
5.6 Market-Centred Valuation
5.7 Cost-benefit Analysis from a Gender Perspective
5.8 Summing Up
5.9 Glossary
5.10 Answers to Check Your Progress Exercises
5.11 References
5.12 Questions for Reflection and Practice

5.1 INTRODUCTION

Cost-Benefit Analysis is a method for assessing not just the identifiable cash profit or loss of a public project, but also elements of intangible social cost and benefit. Social Cost-Benefit analysis is a promising approach to ensuring a more central place for women’s concerns in development planning. Supportive measures for women, like all forms of planned intervention, require decision rules because they use scarce resources in order to produce desired outcomes. Interventionist policies on behalf of women tend to fall in the domain of social cost-benefit analysis because they are generally undertaken by agencies that pay least attention to equity issues along with efficiency objectives (Kabeer, 1995).

Social Cost-Benefit Analysis can be used to justify greater attention to gender issues in the project cycle on efficiency grounds. Market prices do not reflect the benefits produced by women or the costs incurred by them. Any development project which neglects either of these dimensions runs the risk of allocating resources without due regard for the real structure of costs and benefits.

A study of a World Bank project to increase irrigated rice production in Cameroon offers an example of misplaced incentive in project planning. It was assumed that household labour would be available to work on the irrigated rice fields. Here, what the planners overlooked was the traditional patterns of production and distribution which denied women access to rice fields of their own and control over the products of their labour. The women and men in Cameroon had individual fields which they cultivated separately, but rice fields were cultivated jointly by husband and wife, with husbands controlling the disposition of the crop. Although women working on the irrigated rice fields received some financial compensation for the labour they provided to their husbands, it was not large enough to persuade them to cultivate the additional fields necessary to meet targeted output levels.

Social Cost-Benefit Analysis emphasized the equity objective i.e. it stressed on the objective of improving the lives and status of women by treating it as merit
5.2 OBJECTIVES

After studying this Unit, you should be able to:

- define cost-benefit analysis;
- explain principles of cost-benefit analysis in gender planning; and
- examine the application of cost-benefit analysis in gender planning.

5.3 COST-BENEFIT ANALYSIS (CBA)

CBA is a useful approach to assess whether decisions or choices that affect the use of scarce resources promote efficiency. Considering a specific policy and relevant alternatives, the analysis involves systematic identification of policy consequences, followed by valuation of social benefits and costs and then application of the appropriate decision criterion (Diana Fuguitt and Shanton J. Wilcox). This definition can be elaborated in the following manner for easy understanding and this elaboration is also given by Diana Fuguitt and Shanton J. Wilcox.

1) CBA assess decisions or choices. It is a decision-making tool designed to provide information and helps decision makers when they face difficulty in allocating scarce resources.

2) CBA focuses on efficiency and analyzes whether the implementation of a particular policy increases social welfare.

3) CBA is not the analysis of public expenditures and revenues for a public policy; instead it is used to assess the social value effects of public or private decisions and attempts to allow for all gains and losses as viewed from the standpoint of all individuals within society. Such gains and losses are known as social benefits and costs.

4) While analyzing the policy, CBA follows the steps which are given here/under for your understanding:
   - Identification of the policy’s positive and negative social consequences;
   - Valuation in monetary units of as many as possible consequences of social costs and benefits; and
   - Application of the appropriate decision criterion to weigh the social benefits and costs and assess the policy’s efficiency.

5) Some of the specific policies use scarce resources and scarce resources are finite resources with alternative uses. Therefore, it is important to evaluate its efficiency as compared to relevant alternatives.

CBA is considered as a decision making tool and also as a tool for doing analysis of public policy. In the decision making process it is considered as one of the inputs. CBA is a framework to assess and prioritize policies according to their relative efficiency. In the words of Fuguitt and Wilcox (1999), “CBA measures individuals’ preferences concerning the desirability (benefits) and burdens (costs) of a given policy alternative. Moreover, as a quantitative analysis, it assesses relevant data and mathematically reduces policy implications for society”. In this process the decision maker with regard to policy as well as the policy analyst has
Gender Awareness
to interact with each other to make effective use of CBA. Close communication
between them is required to resolve the key question of how rigorously the CBA
should be performed.

**Box 5.1: Principles of CBA**

What are the key principles of CBA?

1) Given the focus on efficiency, CBA is relevant for those decisions
(government or private) which (a) involve the use of scarce resources, and
(b) generate “good” and/or “bad” consequences for social welfare.

2) As a decision making tool, CBA provides the decision maker with
information assessing a particular policy’s efficiency; however, efficiency
is only one of several possible goals that the decision maker might consider
worthwhile. Thus, the final decision on whether to pursue the policy is
resolved by the decision maker, who must weigh the policy’s relative
efficiency with other competing objectives.

3) The analyst must conscientiously inform the decision maker of the practical
implications of the cost-benefit framework’s focus on efficiency and, as
needed, identify relevant trade-offs between efficiency and other policy
objectives.

4) CBA is a “with and without” analysis. The analyst should first develop
the baseline scenario (i.e., what would happen without the policy) and
then identify and calculate incremental benefits and incremental costs by
comparing consequences “with” the policy to those “without” the policy.
(incremental benefits) = (benefits with policy) – (benefits without the
policy); incremental costs = (costs with the policy) – (costs without the
policy).

5) The analyst should identify all policy consequences, determining all of a
policy’s resource impacts that have good or bad consequences for social
welfare and then sketching these consequences.

6) For these consequences, the analyst should identify all benefits and costs,
where these represent the economic value of real changes associated with
a policy. A real change includes a change in the physical quantity or quality
of a given resource or output and/or change in individual satisfaction
derived from the resource or output.

*Source: Diana Fuguitt and Shanton J. Wilcox, *Cost-Benefit Analysis for Public

Apart from CBA there are several other principles used to identify benefits and
costs of policy. They are outlined as follows for your better understanding:

1) Market valuation;

2) Contingent valuation method;

3) Travel cost method;

4) Hedonic pricing method: Property value approach;

5) Valuation of human life; and

6) Cost-effectiveness analysis.

When policies involve a resource that is marketed, then consumer demand, using
market prices, might be analyzed to estimate the resources’ market value. This is
Cost-benefit Analysis

Called market valuation. On the other hand, to value non-market effects, the contingent valuation method asks survey respondents to state their preference hypothetically, indicating their valuation as if a market for the particular resource, good or service actually exists. Contingent valuation is the only systematic method offering the potential for estimating non-use values. Travel cost method may be applicable when a non-marketed resource, good or service is located at a specific site. Property value approach applies multiple regression techniques to analyze property values. The appropriate principle for human life valuation is the willingness to pay or willingness to accept compensation. In the context of scarce resources, numerous individual choices reveal a willingness to forego some expenditures that might ensure preservation of one’s own or someone else’s life in order to achieve other desired objectives. Such trade-offs provide the basis for economists to infer a monetary valuation of human life. Cost-effectiveness analysis can value the costs and quantify the effect of a single policy so that the decision maker can then decide whether pursuing the policy is worth it; and/or (2) assess a number of policies and/or policy levels to identify which one(s) (a) minimize the costs of achieving a given effect; or (b) maximize effectiveness for a given budget or set of resources.

5.4 FOUNDATION PRINCIPLES OF COST-BENEFIT ANALYSIS

The basic rationale of cost-benefit analysis lies in the idea that things are worth doing if the benefits resulting from doing them outweigh their costs.

The foundational principles of Cost-Benefit Analysis include: Explicit Valuation, Consequential Valuation and Additive Accounting.

5.4.1 Explicit Valuation

The demand of explicit valuation is the first general condition imposed as a foundational principle. Explicit valuation is a part of the insistence on a rationalist approach, which demands full explication of the reasons for taking a decision, rather than relying on an unreasoned conviction or on an implicitly derived conclusion. Explication can simply be defined as the act of explaining and interpreting things. Public decisions have more need for explicitness than private choices or personal actions. Others not involved in the decision may legitimately want to know why exactly something – rather than another – is being chosen. The demands of accountability apply not merely to implementation but also to choices of projects and programmes. There is, thus, a case for fuller articulation and more explicit valuation in public decisions than in private ones.

5.4.2 Consequential Evaluation

A second basic principle of cost-benefit analysis relates to the use of consequential evaluation. Costs and benefits are evaluated in this approach by looking at the consequences of the respective decisions. Broadly, consequential evaluation allows the relevant consequences to include not only such things as happiness or the fulfillment of desire on which utilitarians tend to concentrate, but also whether certain actions have been performed or particular rights have been violated.

5.4.3 Additive Accounting

Cost-benefit analysis not only bases decisions on costs and benefits; it also looks for the value of net benefits after deducting costs from benefits. While benefits can be of different kinds and are put together – to the extent that they can be – through a selection of weights (or ranges of weights), costs are seen as foregone benefits. Thus, benefits and costs are defined, ultimately, in the same “space”. The
additive form is implicit in all this. When different kinds of benefits are added together, with appropriate weights, the framework is clearly one of addition. The additive form of cost-benefit analysis requires careful handling. One way of dealing with the problem is to confine attention to relatively marginal changes, so that the weights may not change very much and the framework may be approximately linear. But many projects are relatively large and the benefits may be so particularized (especially in distribution-sensitive accounting) that the weights may have to change quite readily. In that case, there is no alternative – if one were to use the additive form of cost-benefit analysis – to taking note of the need for varying weights as the magnitudes of different kinds of benefits change. The exercise must then take the form of a conjoint determination of quantities of benefits and their weights.

5.5 STRUCTURAL DEMANDS

In this section we will learn about the structural demands of cost-benefit analysis.

Assumed Completeness

Cost-benefit analysis tends to invoke completeness of evaluations. This requires not only that each consequence be identified and known (more on this presently) but also that the weights, at the appropriate point, are definitive and unique. It is often presumed, without any explicit argument, that if we are evaluating benefits and costs, then every possible state of affairs must be comparable and be clearly ranked-vis-a-vis every other.

Full Knowledge

The presumption of full knowledge of the consequences involved is rather similar to that of complete availability of definitive and precise valuational weights. It is relevant to examine the sources of epistemic ambiguity and their far-reaching effects. No less importantly, there is a need to consider ranges of values of factual variables (like that used for evaluative weights), which lead mathematically to similarly partial orderings of alternative proposals (on the basis of intersection of all the total orderings compatible with each set of values within the respective ranges). Again, the discipline of maximization provides a much fuller reach than the usual insistence on optimization.

Non-iterative and Non-parametric Valuations

Valuational judgements we make can take various forms. One distinction relates to judgements that are basic in the sense that they are not parasitic on any underlying factual presumption (other than those which are part of the subject matter of the judgment itself). Non-basic judgements may, however, draw on factual presumptions, often made in an implicit way and thus remain subject to revision in the light of more knowledge – indeed even in the light of the results of applying these non-basic judgements themselves.

Check Your Progress Exercise 1

Note: a) Use this space given below to answer the question.

b) Compare your answer with the one given at the end of the Unit.

1) Explain additive accounting.
5.6 EVALUATIVE INDIFFERENCES

In this section we would focus on three types of evaluative indifferences: non-evaluation of actions, motives and rights; indifferences to intrinsic value of freedom and instrumental view of behavioural values.

Non-valuation of Actions, Motives and Rights

In the context of discussing broad consequential evaluation, there was already an opportunity of commenting on the inclusiveness of consequential reasoning such as taking note of the nature of actions and the fulfillment and violation of recognized rights. Motives too can come into the accounting, even though they are more important in personal decisions than in public choices. The neglect of these considerations in mainstream cost-benefit analysis does reduce the reach of the ethical analysis underlying public decisions. The literature on human rights brings out how strongly relevant – and closely related – some of these concerns are to what people see as important. These concerns remain potentially pertinent to cost-benefit evaluation even when people have no opportunity of expressing their valuations of these concerns in limited models of cost-benefit assessment (for example, in terms of market price-based evaluations).

Indifference to Intrinsic Value of Freedom

Cost-benefit analysis takes note of the substantive freedoms that people have (formally this will require valuation of opportunity sets and not merely of the chosen alternatives). For example, a person who voluntarily fasts (rather than involuntarily starves) is rejecting the option of eating. But, to eliminate the option of eating would make nonsense of the voluntariness of his choice. Essentially, fasting is an act of choosing to starve and the elimination of the option of eating robs the person of the opportunity of choice that makes sense of the “sacrifice” involved in fasting.

Instrumental View of Behavioural Values

Values influence our actions and in assessing the consequences of public projects, valutational assumptions are standardly made.

5.7 MARKET-CENTRED VALUATION

Market-centred valuation can be based on three influencing factors: reliance on willingness to pay; sufficiency of potential compensation; disregard of social choice options. We will now discuss each in detail.

Reliance on Willingness to Pay

In mainstream cost-benefit analysis, the primary work of valuation is done by the use of willingness to pay. This approach is, of course, based on the rationale of the discipline of market valuation. Indeed, the use of valuations based on a market analogy has some of the merits that the market allocation system itself has, including sensitivity to individual preferences and tractability of relative weights. Estimation of willingness to pay is particularly hard in the case of contingent valuation of existence values of prized components of the environment – a centrally important exercise for cost-benefit analysis. The contingent valuation (CV) procedure takes the form of posing hypothetical questions about how much people would be willing to pay to prevent the loss of some particular object. In the legal context, dealing with damage caused by acts, the contingent valuation approach has tended to be used as both (1) a measure of the actual loss involved; and (2) an indication of the extent of culpability of the party whose negligence (or worse) led to the event that occurred.
Gender Awareness

Sufficiency of Potential Compensation

It is possible to interpret aggregates of willingness to pay in terms of the potential possibility of redistribution, including the compensation of any loss that some people may suffer. Given certain assumptions, such compensational interpretations do indeed have some plausibility. The question, however, is the relevance and persuasive power of ethical reasoning based not on actual outcomes but on potential compensational possibilities that may or may not be actually used. If compensations are actually paid, then of course we do not need the compensation criterion, since the actual outcome already includes the paid compensations and can be judged without reference to compensation tests (in the case of Kaldor-Hicks criterion, after compensations have been paid, the result will be a case of a simple Pareto improvement). On the other hand, if compensations are not paid, it is not at all clear in what sense it can be said that this is a social improvement. If, in a case without externality, a person is willing to pay far less for A than for B, then to give that person B rather than A, when either can be given to her, would involve a loss. This much can be acknowledged even without addressing the distributional issue (since the Pareto criterion is adequate here) and such sub-choices will be typically embedded in larger choices (incorporating distributional issues as well). So the information involved in the willingness to pay has some relevance to efficiency, no matter how weak may be the equity conclusions drawn from it through the compensation tests.

Disregard of Social Choice Options

Market-centred valuation has ambiguities especially when it comes to interpreting what people say they are ready to pay for public goods, including environmental preservation and existence values. In this context, it may be useful to ask what kind of social choice interpretation underlies the contingent valuation procedure. The philosophy behind contingent valuation seems to lie in the idea that an environmental good can be seen in essentially the same way as a normal private commodity that we purchase and consume. The valuation that is thus expressed is that of achieving single-handedly – this is crucial – this environmental benefit.

The condition of independence of irrelevant alternatives, formulated by Kenneth Arrow in Social Choice and Individual Values, states that in making choices over the relevant alternatives (that is, over the alternative states in the actual opportunity set), the social choice should not depend on our valuation of irrelevant alternatives (that is, the ones not in the opportunity set). To conclude, cost-benefit analysis is a very general discipline, with some basic demands – expressed here in the form of foundational principles. The mainstream approach of cost-benefit analysis not only takes on the foundational principles, the structural demands and the evaluative indifferences, but also uses a very special method of valuation through direct use of or in analogy with, the logic of market allocation. This market-centered approach is sometimes taken (particularly by its advocates) to be the only approach of cost-benefit analysis.

5.8 COST-BENEFIT ANALYSIS FROM A GENDER PERSPECTIVE

The application of Cost-benefit analysis (CBA) from a gender perspective is quite different. Here it analyzes the social cost rather than the benefit in terms of material and monetary benefit. Rosenhead and Thunhurst have defined it as “CBA is a method for assessing not just the identifiable cash profit or loss of a public project, but also elements of ‘intangible’ social cost and benefit. In principle this might seem a progressive innovation.....but in CBA all these are compressed onto a single dimension – money. Qualities which had previously been assumed as inalienable
Cost-benefit Analysis

are now given a ‘price tag’. But the policy analysis for gender-related policies should consider the social cost and social benefit aspect of it rather than looking at the material or monetary aspect of it. It is premised on the assumption that the aim of public policy is to maximize the social welfare or the public good. It should take explicit account of the distribution of costs and benefits, weighting them differently when they accrue to disadvantaged individuals, especially women. The use of distributional weights to incorporate equity objectives is the main contribution of social cost-benefit analysis to the field of plan/policy/project analysis.

a) Gender and Efficiency

Development planning becomes useless without focusing on recognizing the contribution made by women and other minorities to the enhancement of resources. Therefore, spending money for them should not be calculated in stereotypical CBA. Rather, it should focus on how that spending will accelerate the development process. Therefore, CBA should evaluate the efficiency and equity objectives of the policy. Naila Kabeer states that Social CBA can be used to justify greater attention to gender issues in the project cycle on efficiency grounds if, for instance, it can be demonstrated that market prices do not reflect the benefits produced by women or the costs incurred by them. Any development project which neglects either of these dimensions runs the risk of allocating resources without due regard for the real structure of costs and benefits. Endorsing this view, USAID has also said that the misunderstanding of gender differences, leading to inadequate planning and designing of projects, results in diminished returns on investment. There, at the planning stage itself, gender distribution of cost and benefit should be taken into account. A case study from the book Reversed Realities written by Naila Kabeer can give you further clarification on the gender and efficiency aspect of CBA (Box 5.2).

**Box 5.2: A Case Study from Kenya**

Staudt’s research points out that government extension officers seeking to encourage the adoption of new hybrid maize assumed the gender of farmers to be male and concentrated their attention on households where men were present. While around 40 per cent of farms were female-managed, these were consistently bypassed. Nevertheless, female farm managers used their own information networks to increase their rates of adoption and frequently proved to be more innovative than farms where men were present. According to all calculations, a third of the female-managed farms that were classified as early adopters of hybrid maize had no administrative support or advice for such a move. Among farms with men present which had been similarly neglected, only 3 per cent adopted early. She concluded that ignoring women’s productivity potential had slowed down the diffusion of innovative farming practice. “Denying access to capable groups because of norms which support male preference represents an inefficient use of scarce resources”.

b) Gender and Equity

If the government is better equipped than individuals or markets to improve the lives and status of women then it is called as the ‘merit good’ in welfare economics. Government policies should therefore focus on increasing the ‘merit good’. CBA should look into women’s vital role in sustaining economic production and the inequitable practices which prevent them from fully sharing in the fruits of development and attaining equitable status in the society. Whenever the interests of subordinated groups are at stake, CBA from a gender perspective should take on particular form when gender issues are involved because of the specific nature of women’s subordination in many societies (Kabeer, 1994).
e) Criticism of CBA from a Gender Perspective

Naila Kabeer has discussed the limitations of CBA from a gender perspective. They are presented in the following discussion for your understanding.

1) Gender segmentation in the labour market

CBA gives more importance to the market and its valuation. Donahue says “values are slippery and this goes far to explain the appeal of an automatic mechanism for setting values – market prices”. In the context of gender, the labour market often undervalues women’s work which leads to inequality. The powerful ideologies of masculinity and femininity, of appropriate gender roles, government legislation and male protectionism, create and sustain systematic distortions in the relative prices and mobility of male and female labour. The problem often does not lie in overt wage discrimination between women and men working in the same jobs but rather in the creation of incommensurable segments in the labour market across sectors, occupations and tasks. Therefore, the competition in the labour market occurs within male and female segments. For example, as you know, men are seen to engage in activities which require purposeful effort, instrumental rationality and the expenditure of energy. Women’s work, by contrast, is associated with caring and nurturing qualities and affective rationality. This association devalues women’s labour effort because it is seen as a natural extension of their familial roles rather than purposive or demanding work. Hence, women and men are treated as non-substitutable labour, entering into gender-specific segments and assigned to various tasks in accordance with preconceived gender stereotyping rather than efficiency criteria. Market forces are saturated with gender norms and practices. These practices are not only supported by market for profit, but also strongly supported by male workers also.

2) The valuation of non-marketed goods

If benefits or costs cannot assign monetary prices then that factor cannot enter into market transaction at all. Otherwise it means that non-marketed goods cannot be assigned any value at all. Without monetary prices, there is no meaningful basis of comparison between costs and benefits. The issue of these non-marketed activities is not a trivial one. The gender bias to this preoccupation with marketed goods stems from the fact that a significant proportion of women’s labour in most developing economies takes place outside the market. Within the general category of non-marketed goods, there are further sub-categories. Some goods are potentially marketable and others do not enter the market place at all. The most obvious example for the produce which does not enter into the market place is the domestic reproduction, maintenance and care of human resources: child bearing and child care; care of the sick, disabled and elderly; and the daily maintenance of the household. These activities are at least as important to household survival and well-being as the production of material resources. Here lies the problem of integrating non-marketable ‘reproductive’ work into the cost-benefit framework. In Box 5.3 an interesting example is presented for your understanding on how cost-benefit analysis can be done for women’s reproductive work.

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<tr>
<th>Box 5.3: Breast milk substitutes</th>
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<td>A paper was presented in a conference in Zimbabwe advocating breast-feeding in place of bottle feeding. Among the national family-level costs of switching from breast-feeding to bottle-feeding identified were the substantial extra demand for foreign exchange to cover dried milk; loss of contraceptive effect connected with breast-feeding and resultant increase in population; impaired health status of babies and young children as a</td>
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result of early cessation of breast-feeding and the associated rise in health related expenditures. If women stop breast feeding their babies it will have serious consequences both in terms of monetary condition of the country as well as the health status of the people.

Naila Kabeer suggests some solutions to situations where no meaningful monetary valuation can be made of CBA. Relying on non-monetary indicators of projected benefits and using cost-effectiveness analysis to decide how to achieve them would be one solution. For example, social indicators, such as reduction in infant mortality rates or increase in per capita nutritional intake may serve to approximate the qualitative aspect of benefits.

3) Pricing the intangible

The difficulties we have discussed so far relate to the problem of relying on money as measurement in a situation where the market does not exist. The incorporation of equity objectives into cost-benefit planning raises a whole new set of problems. The notion of equity has a far more ambiguous status than efficiency because it is very difficult to quantify the concept of equity. CBA has difficulty in dealing with matter which is not quantifiable and intangible. CBA would find it difficult to evaluate projects which tackle the underlying causes of women’s lower earnings relative to men of similar class or educational backgrounds. A notion of equity that focuses only on outcomes and ignores processes, will leave intact the structural inequalities in material resources, influence, contacts and organizational capacity which underlie gender inequalities in earning power. Another dimension to the question of intangibles is that which concerns values other than those of the market. For example, women may prefer to work on their own enterprises or wages rather than on household or male-managed fields, regardless of relative returns on the two activities because they value their autonomy from men in their households over the prospect of enhanced household income over which they had little or no control.

4) Conflicting interests in the social welfare function

Another set of problems with CBA stems from the political economy within which most CBA exercises are conducted. It relates to the conflictual nature of gender relations. CBA is capable of recognizing certain kinds of inequalities namely, inequalities in the distribution of income in a population and the existence of poverty groups. However, it maintains a deafening silence on the power relations persistently impinging on the interpretation of the social welfare function. This will limit the usage of CBA as a planning tool.

5.9 SUMMING UP

For those who wish to promote women’s empowerment, a participatory form of planning and evaluation might be a more appropriate approach. Social Cost Benefit Analysis (SCBA) can be used only to a certain extent in this case. Based on analyzing the objectives, successes and problems of a project as seen by the various stakeholders in the process and in partnership with those the project in intended to serve might be a more appropriate approach. To conclude, CBA cannot be considered as a neutral or foolproof guide to all plans. However, any development project which neglects benefits for women derived from projects and costs incurred by them runs the risk of allocating resources without emphasizing the equity objective. In addition, techniques like participatory appraisal need to be also included in the planning process, especially if the plan is for women.
Check Your Progress Exercise 2

Note: a) Use this space given below to answer the question.
    b) Compare your answer with the one given at the end of the Unit.

1) Explain the cost-benefit analysis from a gender perspective by using a case study.

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5.9 GLOSSARY

Pareto efficiency: Pareto efficiency or Pareto optimality, is a concept in economics with applications in engineering and social sciences. The term is named after Vilfredo Pareto, an Italian economist who used the concept in his studies of economic efficiency and income distribution. Given an initial allocation of goods among a set of individuals, a change to a different allocation that makes at least one individual better off without making any other individual worse off is called a Pareto improvement. An allocation is defined as “Pareto efficient” or “Pareto optimal” when no further Pareto improvements can be made.

Kaldor-Hicks criterion: Kaldor-Hicks efficiency, named for Nicholas Kaldor and John Hicks, also known as Kaldor-Hicks criterion, is a measure of economic efficiency that captures some of the intuitive appeal of Pareto efficiency, but has less stringent criteria and is hence applicable to more circumstances. Under Kaldor-Hicks efficiency, an outcome is considered more efficient if a Pareto optimal outcome can be reached by arranging sufficient compensation from those that are made better off to those that are made worse off so that all would end up no worse off than before.

5.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1) Cost-benefit analysis not only bases decisions on costs and benefits, it also looks for the value of net benefits after deducting costs from benefits. While benefits can be of different kinds and are put together – to the extent that they can be – through a selection of weights (or ranges of weights), costs are seen as foregone benefits. Thus, benefits and costs are defined, ultimately, in the same “space”. The additive form is implicit in all this. When different kinds of benefits are added together, with appropriate weights, the framework is clearly one of addition. The additive form of cost-benefit analysis requires careful handling. One way of dealing with the problem is to confine attention
to relatively marginal changes, so that the weights may not change very much and the framework may be approximately linear. But many projects are relatively large and the benefits may be so particularized (especially in distribution-sensitive accounting) that the weights may have to change quite readily. In that case, there is no alternative – if one were to use the additive form of cost-benefit analysis – to taking note of the need for varying weights as the magnitudes of different kinds of benefits change. The exercise must then take the form of a conjoint determination of quantities of benefits and their weights.

Check Your Progress Exercise 2

1) Staudt’s research points out that government extension officers seeking to encourage the adoption of new hybrid maize assumed the gender of farmers to be male and concentrated their attention on households where men were present. While around 40 per cent of farms were female-managed, these were consistently bypassed. Nevertheless, female farm managers used their own information networks to increase their rates of adoption and frequently proved to be more innovative than farms where men were present. According to all calculations, a third of the female-managed farms that were classified as early adopters of hybrid maize had no administrative support or advice for such a move. Among farms with men present which had been similarly neglected, only 3 per cent adopted early. She concluded that ignoring women’s productivity potential had slowed down the diffusion of innovative farming practice. “Denying access to capable groups because of norms which support male preference represents an inefficient use of scarce resources”.

5.11 REFERENCES


5.12 QUESTIONS FOR REFLECTION AND PRACTICE

1) What are the foundational principles of cost-benefit analysis? Explain.

2) Explain the concept of cost-benefit analysis from a gender perspective.