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"Risk Assessment 'Malarky,' Says Economist" (Cordato rocking back in '95)

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Great wine ages well. In this case, the nectar has no expiration date.

Some twenty-one years ago, a "libertarian economist" from Campbell University got attention in the energy press by popping a sacred cow of market-failure economics, social cost/benefit analysis as a basis for government intervention in markets. The occasion was a Cato Institute/Institute for Energy Research conference, "New Horizons in Electric Power Deregulation," held on March 2, 1995, in Washington, DC.

In my dusty files, I recently found this writeup from *The Quad Report*(April 1995) that is reprinted below.

RISK ASSESSMENT 'MALARKY,' SAYS ECONOMIST

The highly-touted risk assessment provisions of the House Republican's "Contract With America" is "malarkey," says libertarian economist Roy Cordato of Campbell University. The provisions, passed in the House in early March by a wide margin, require a rigorous cost-benefit analysis before executive branch agencies can adopt new regulations.

"You let me name the people doing the analysis, and I can get you any outcome you desire," he told *The Quad Report*. Earlier, Cordato told a Cato Institute meeting on electricity issues that cost-benefit analysis for demand-side management programs — and for all other purposes — is essentially a bogus enterprise, doomed to failure, regardless of how carefully the analysis is performed.

Cordato, who earned his Ph.D in economics at George Mason University under Nobel laureate James Buchanan, said the concept of social cost-benefit analysis “is fundamentally flawed and impossible to implement in the way that is called for in economic theory. . . Consequently, any public policy that attempts to advance economic efficiency by basing the centralized manipulation of market outcomes on such analysis will be equally flawed.”

Cordato insists that in the case of social cost-benefit analysis, “what actually needs to be measured is either undefinable, unmeasurable, or both.” Analysts deal with this through the classic response of an economist stranded on a desert island after a ship wreck with only a can of beans to sustain life: “assume a can opener.”

One of the first assumptions analysts make in cost-benefit calculations is a technical concept called “consumer surplus,” which is “the difference between the total benefit associated with a purchase and the opportunity cost,” and it is typically measured in dollars. “In order for money to be a measuring rod of consumer surplus,” Cordato notes, “a dollar amount of satisfaction must remain constant and it must be exactly the same for all individuals.” In other words, a millionaire and a pauper must value a dollar the same. “If this were not the case,” he says, “arithmetic measurement would be impossible.”

Cost-benefit analysis, concludes Cordato, “is an attempt to do something that conceptually cannot be done. Cost-benefit analysis is inherently a non-operational approach for making determinations about social efficiency. Simply making assumptions to the contrary and then proceeding does not change this fact.” Those who believe risk analysis will improve decisions are simply wrong, Cordato said.

Among those who believe cost-benefit analysis will improve decision making is the Edison Electric Institute. EEI praised the passage of the risk assessment legislation (H.R. 1022). “Risk assessment brings the promise of better decision making to the process of protecting the health of our citizens and the environment,” said EEI President Thomas Kuhn. EEI was a founding member of the Alliance for Reasonable Regulation, a coalition of some 1,500 business groups and businesses supporting the legislation. The risk assessment legislation is expected to face more difficulty in the Senate than in the House.