

Social Cost Benefit Analysis

Social cost-benefit analysis is a systematic and cohesive economic tool(method) to survey all the impacts caused by an urban development project[1]. It comprises not just the financial effects (investment costs, direct benefits like tax and fees, et cetera), but all the social effects, like: pollution, safety, indirect (labour) market, legal aspects, et cetera. The main aim of a social cost-benefit analysis is to attach a price to as many effects as possible in order to uniformly weigh the above-mentioned heterogeneous effects. As a result, these prices reflect the value a society attaches to the caused effects, enabling the decision maker to form a statement about the net social welfare effects of a project.

The social cost-benefit analysis calculates the direct (primary), indirect (secondary) and external effects:

Construction site

Direct effects are the costs and benefits that can be directly linked to the owners/users of the project properties (e.g., the users and the owner of a building or highway).

Indirect effects are the costs and benefits that are passed on to the producers and consumers outside the market with which the project is involved (e.g., the owner of a bakery nearby the new building, or a business company located near the newly planned highway).

External effects are the costs and benefits that cannot be passed on to any existing market because they relate to issues like the environment (noise, emission of CO₂ etc.), safety (traffic, external security) and nature (biodiversity, dehydration etc.).

The model engineers try to quantify and monetise as much effects as possible. Effects that cannot be monetised are presented in such a way that they can be compared. This way, policy-makers can include these effects in their final judgement if an urban planning project (or a particular variation) is worth investing in. The method of monetising effects can also influence the outcome of a social cost-benefit analysis and predictions will always remain uncertain. Therefore, the results of a social cost-benefit analysis are not absolute. Nevertheless, it is a sufficient instrument to investigate the strong and weak points of the different alternatives.

Results of a social cost-benefit analysis

The result of a social cost-benefit analysis are:

An integrated way of comparing the different effects. All relevant costs and benefits of the different project implementations (alternatives) are identified and monetized as far as possible. Effects that cannot be monetized are described and quantified as much as possible.

Attention for the distribution of costs and benefits. The benefits of a project do not always get to the groups bearing the costs. A social cost-benefit analysis gives insight in who bears the costs and who derives the benefits.

Comparison of the project alternatives. A social cost-benefit analysis is a good method to show the differences between project alternatives and provides information to make a well informed decision.

Presentation of the uncertainties and risks. A social cost-benefit analysis has several methods to take economic risks and uncertainties into account. The policy decision should be based on calculated risk.