Americans would assign to the same benefit available today, multiplied each year by both 1.03 and 1.018. The numbers combine for an annual increase of about 4.85 percent.

Unless CBA calculators can justify their failure to account for health inflation and increasing per capita real GDP, they should immediately begin increasing the estimated value of future health and safety benefits. While controversy would remain as to what discount rate is appropriate when determining the present value of such future benefits, a CBA that correctly values future benefits will find more accurate present values for any correctly chosen discount rate, and current practice arbitrarily reduces the values of future benefits.

The two simple corrections to CBA calculations proposed here would immensely increase the projected monetized benefits of regulations expected to save lives in the future. By accounting for health inflation and rising real income, policymakers can more easily justify regulations concerning workplace safety, clean air, clean water, and highway safety, to name just a few. In particular, the long-term benefits of ameliorating global warming would have substantially greater monetary value if properly calculated. Because many global warming regulations are the responsibility of EPA, the agency’s decision to incorporate rising real per capita income into its CBA is an important step in the right direction. Without silencing their ethical and moral critiques of discounting future human lives, those opposed to the practice should demand that if CBA calculations will incorporate such discounting, they must at least begin with a proper assessment of the future value to be discounted, a value one can accurately find only with a consideration of health care cost inflation and rising real per capita income.

Professor Trachtenberg joins recent commentators such as Richard Revesz and Michael Livermore in arguing that, when it comes to regulatory cost-benefit analysis, we should mend it, not end it. In his view, future regulatory benefits should be reduced to present value at a lower rate than current practice, given evidence that health care costs rise at a higher rate than other goods and services and that individuals exhibit a higher willingness to invest in health and safety as their incomes rise.

The latter income elasticity point is a significant one and represents a forward-looking version of an argument offered by Lisa Heinzerling and Frank Ackerman in their paper “If It Exists, It’s Getting Bigger: Revising the Value of a Statistical Life.”

At the time they were writing, the standard VSL measure used by federal agencies not only failed to adjust for greater potential spending power in the future, it also failed to account for income increases we had already experienced. Many key VSL studies rely on market evidence that is over two decades old. If we seriously believe that such studies reveal people’s preferences for investing in risk reduction, then we should be serious about the methodology and adjust it for inflation and income elasticity, as EPA has begun doing under the current administration. The next step for federal agencies should be to follow Professor Trachtenberg’s recommendation and adjust for anticipated wage growth into the future as well.

The former recommendation gives more pause, as it could be seen as an opportunistic use of CBA’s weaknesses, rather than a strengthening of the methodology. Professor Trachtenberg infers that health care inflation represents rising consumer demand, rather than rent-taking, administrative inefficiency, moral hazard, and other market failures that contribute to the spectacular rise in U.S. health care expenditures. CBA practitioners do often estimate the value of regulatory benefits by looking to actual market behavior. But the health care market seems like an especially hazardous place to deploy that approach. After all, Professor Trachtenberg’s health inflation formula implies that at some point in the future America’s health care expenditures will approach one hundred percent of GDP.

Obviously, something is wrong with the way we are divining people’s preferences. Strategically, Professor Trachtenberg’s example serves to justify reducing the amount by which future health benefits are discounted. Analytically, the example serves to reveal how fragile the CBA edifice really is.

Advocates can — and should — continue to press for preferred policy results using the dominant language of CBA. In that sense, we applaud Professor Trachtenberg’s efforts to make CBA practice more consistent with its own intellectual premises. But whatever incremental gain is attained will simultaneously underscore the chief problem of reliance on CBA: each effort to tweak the process, to offer a more balanced analysis, shows how manipulable the methodology remains.

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