The logic of cost-benefit analysis (CBA) favors the rich over the poor. CBA is based on willingness to pay. In essence, that means voting with dollars, which comes with inherent inequality. There's a possible fix to this problem, however. It's called equity weighting. Equity weighting adjusts the monetary values used in CBA to take into account that a dollar to a poor person is worth much more than a dollar to a rich one.

Equity weighting can make a big difference in assessing regulations that heavily benefit disadvantaged communities. By some estimates, a dollar is worth thirteen times as much in the hands of a poor person as a rich person. That is to say, giving a poor person something worth a dollar improves their lives thirteen times as much as giving the same dollar's worth to a rich person. Failing to correct for this difference could seriously distort the regulatory process, assuming that we value the welfare of poor people equally with that of the rich.

Equity weighting thus has the potential to make regulation much more progressive. But there are practical pitfalls that make the choice more complicated. There are also theoretical objections that I won't discuss because their assumptions are extremely unrealistic. The first practical complication is that welfare weighting has to be done on both sides. If the cost of the regulation falls equally on the poor and the rich in dollar terms, the cost to the poor has to be multiplied to take into account their greater need for the money. Hence, the regulation is likely to be a bad deal for the poor unless the benefit to them is larger than the cost. Thus, equity weighting may often favor greater regulation but it could sometimes favor deregulation. For example, equity weighting would increase the social cost of carbon but would also raise questions about regulations that raise the price of electricity, an important expense for poor people.

Second, there are political and legal problems with equity weighting. The political problem is that equity weighting is progressive and therefore is likely to get a hostile reaction from conservatives (including conservative judges). The legal problem is that regulatory statutes such as environmental laws generally don't have income redistribution as one of their purposes. This raises the question of whether welfare weighting can be squared with the statute's purpose. On the other hand, economic efficiency isn't the purpose of those statutes either, yet courts seem O.K. with conventional cost-benefit analysis, which is based on that goal.

Third, although theoretically CBA should weight the welfare of the poor less than the welfare of the rich, the actual practice of CBA departs in important ways from theory. In particular, risks to life and health are assessed without regard to income. The same "value of life" is used regardless of whether the risk falls on the rich or the poor.

This way of valuing life and health risks performs at least some of the same work as equity weighting. If we did equity weighting, we would first look at how much the poor are willing to pay to avoid mortality risks, which would then be multiplied by thirteen (or some other equity weight). The first stage lowers the benefit of a regulation to the poor, while the second jacks it back up again. If the two effects are largely offsetting, equity weighting may not make much difference on the benefit side of the analysis. However, equity weighting could mean that regulatory costs would get greater emphasis to the extent they fall on the poor.

My inclination is that agencies may not want to adopt equity weighting as the standard method for performing cost-benefit analysis. If the cost-benefit analysis shows greater or roughly equally costs than benefits, however, it may be worth doing an equity weighted analysis to assess whether a regulation’s effect on equity should tip the scales.