

A COMPARATIVE ANALYSIS OF LITTLE-MIRRLLEES'
AND MISHAN'S METHODS OF VALUING SOCIAL COSTS
AND BENEFITS

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ABSTRACT

Social cost-benefit-analysis is an assessment exercise which considers the ~~pros~~ and cons of proposed projects from the point of view of all losers and all beneficiaries within a nation. It has arisen out of a demonstrated need for project appraisal to be based on other criteria than just private, money profitability. It therefore uses social cost and benefit concepts which are attractive in principle but difficult to measure in practice.

This thesis, acknowledging the pervasive controversy surrounding ways to derive accounting ('shadow') prices by which social benefits and costs are measured, concentrates on two leading methods that have been ~~proposed~~ to-date. One calls for world ('border') prices, and the other prefers domestic prices, for commodity inputs and outputs. The two methods also disagree on how to derive a 'social' wage rate of labor, not to mention the 'social' discount rate by which to discount future benefits and costs to a common base period, before they are compared.

Chapter three undertakes to compare and contrast these issues at the level of theory, and the next two chapters demonstrate the practical significance of the same issues, by analysing an actual project, undertaken in Kenya, from the points of view of each method.

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The aim, in addition to highlighting the issues involved, is to interpret the arguments underlying methodological ~~aspects~~ ^{aspects}, with a view, if not to harmonise them, then at least to give practical meaning to them.

In the end, the calculation sustains the original hypothesis, that the two methods do not necessarily lead to discordant results. A sensitivity test is undertaken, and the results will be found to be surprisingly similar. The last chapter summarises the principal conclusions and offers tentative recommendations on how a social project appraisal program could be introduced in Kenya. It also cautions, however, that cost benefit analysis must be seen in its proper perspective, with its promises and shortcomings, if sensible use is to be made of it as a broad-based planning (allocation) technique.