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On June 13, 2019, the U.S. Department of Agriculture (USDA) released what it describes as a "Cost-Benefit Analysis" of the proposed relocation of NIFA and ERS from Washington DC to Kansas City. Based on its analysis the USDA concludes that relocation of these two agencies would save $19 million per year which could be reinvested in other USDA programs.

This comment on the USDA analysis will focus on two broad issues. One is whether the analysis is a true benefit cost analysis in the sense of OMB Circular A-94, which provides guidance to federal agencies on how to undertake benefit-cost analysis. The other is to point out judgments made by USDA made in the analysis or omissions of costs from the analysis that together bias the results toward a net savings.

The term benefit-cost analysis is often used informally to describe any type of analysis that involves comparing the pluses and minuses of a decision. There is, however, a formal economic approach to undertaking benefit cost analysis that is used throughout the federal government in regulatory impact analysis, water resource projects, infrastructure investments, and social programs. OMB Circular A-94 provides guidance for how to properly undertake a benefit cost analysis. The USDA study deviates from the OMB guidance in several ways.

There is almost no discussion of the costs of relocating ERS and NIFA. Yet there are costs which should be counted,

- Employees of NIFA and ERS will bear costs in several forms.
  - Those ERS employees who do not transfer to the new location will incur search costs of finding new employment. Such costs are not easy to estimate. However, based on research by the Bureau of Labor Statistics, such costs could be about 1% of prior compensation in a period of full employment.

  - Employees of NIFA and ERS will incur costs of moving to the new location. From a social benefit cost standpoint it does not matter whether these costs are reimbursed, they are social costs regardless of whether they are borne by the employee or the federal government.

- Lost Value of Research Lost Due to Employee Attrition
  - As the critique prepared by the Agricultural and Applied Economics Association points out, society will lose the research output that would have been produced by employees who leave government service due to the proposed relocation. The AAEA estimates the value of such lost research output would equal 141-203 million dollars over fifteen years.

- Ignoring the costs of not locating ERS and NIFA in the same geographical area as other federal agencies
    - The ERS is part of the Interagency Council on Statistical Policy that has the task of coordinating statistical policy throughout the federal government. One major initiative in past years has been to reduce the dispersion of the various federal statistical agencies both among federal agencies and geographically within the DC region. Locating ERS outside of the region thus has a cost, which should be netted against the benefit of location near the Kansas City Federal Reserve Bank.

- Incorrect Treatment of State Relocation Incentives
    - The USDA analysis cites “a robust (Kansas) state incentives package of $26 million” as cost savings to the federal government. While this is correct as far as it goes, it ignores the fact that the same $26 million is a cost to the state of Kansas. Since a benefit cost analysis such as USDA’s should adopt a national perspective, the $26 million should not “count” but instead the benefits to the national government should be offset by the costs to the state of Kansas. (Note because the US economy is at full employment the “jobs created” in Kansas would not count as benefits.

- Improper Treatment of the Counterfactual
    - A lion’s share of the benefits of moving are based on comparing the rental/building costs at the current location of ERS and NIFA in DC vs. location outside of DC. As noted in the AAEA critique, if one of the objectives of moving is to save costs, the USDA analysis ignores the existence of less costly space within the DC region. Depending on how the costs of alternative space are calculated, the AAEA estimates that the cost savings from relocating to Kansas City would be $35 million instead of the $92 million estimated for USDA.