

# Permit Pollution

## It Will Go Away

by William Ashworth



You get what you pay for. We have dirty rivers because we are unwilling to foot the bill for clean ones.

That bill would come in the form of considerably higher consumer prices, and most of us believe they are too high now. Let us have no prattle, please, about how industry should absorb the costs. Industry can't do that. It is only a pass-through for the money, which ultimately must come from us.

Consumer prices are set by many interacting forces, but two of these are far more important than the others. One is production cost, which sets the bottom limit on the price; a company that sells its product for less than it costs to produce is not going to remain in business very long. The other is consumer willingness to pay, which sets the top limit. Companies which charge more for their products than consumers think they are worth cannot sell them, and they do not remain in business very long either.

Production cost and consumer willingness to pay form the jaws of a vice, and there is not much wiggle room in there. Yes, I know: CEO compensation packages are far too high. They can and should come down, and that will buy some slack. But it is not very much slack, and it does not address the basic problem. The jaws of a vice cannot move toward each other without squeezing what is between them. If we ratchet production costs upward by



demanding better pollution control, we must expect prices to slip upward as well.

If we have to pay more for the goods we purchase, of course, we will not be able to purchase as many of them. But isn't that really the point? The ultimate cause of pollution is not greedy factory owners, but greedy consumers. We just plain buy too much. Producing excess goods is the prime source of excess pollution. The best, and fairest, way to get a handle on that cycle is to raise prices. Demand, obedient to the laws of markets, will respond by going down. Fewer goods will be purchased, fewer goods will be produced, and that will translate directly into less pollution. The polluter will be paying, and polluting less as a result. Isn't that what we say we want?

Pollution is primarily an economic problem, and we err when we treat it as a matter of law. There are legal ramifications, but they flow from the economics, not the other way around. They should not drive the solution, which must stem from the core realities of the problem we are addressing, if we wish it to be successful.

The principal cause of dirty water and dirty air is an economic factor known as external costs, or externalities. (Technically—because there can also be external benefits—external costs should be termed negative externalities, but we will follow common practice here and omit the modifier.) Externalities are part of the costs of producing a good, but they are paid by neither the producer nor the consumer. Because of this they are not seen as part of the transaction, so they do not show up in company balance sheets. Nevertheless, they are real costs, and somebody—somebody—pays them.

An example commonly used in economics textbooks is that of soot from a factory chimney drifting over a neighborhood where laundry is hung out to dry. The soot comes down on the clean clothes; the clothes have to be rewashed, and some of

them may have to be replaced. The money paid by the neighbors for soap and water and new clothes is a direct cost of whatever it was in the factory that released the soot, but it is totally outside the production process and will affect neither the factory owner nor his customers—as long as they all live upwind. It is part of the company's production costs, but it is invisible to the company's accountants and because of this will not be included when calculating the price of the product, which is artificially lowered as a result.

It takes only a little imagination to see how this relates to other forms of pollution. Wastes are released into the air or water; the damage occurs downwind or downstream, and the people who incur the related costs are entirely off the company's radar screen. Often they are not even people, and who cares about dirty deer? These invisible production costs are very real. The burden of them is, in fact, slowly driving our society bankrupt. But because they are not on the balance sheets, they are not considered when calculating prices, which—as a direct result—are set much lower than the actual cost of producing the product. We are getting wonderful bargains, but we are saving money all the way to the poorhouse.

**Conservatives had better be prepared for welfare as we have never seen it.**

Clearly, this problem cannot be addressed by laws prohibiting pollution. That is like treating cancer by prescribing painkillers. It makes us feel better, but it does not get at the cause of the disease. All it does is mask the symptoms for a while.

If we are serious about pollution control—and we must be if we are to survive—then we must attack the problem at its





source. Internalize the externalities; make the invisible costs visible. Prices will soar. But the real polluters—the ones who are profiting most from pollution, the ones who are getting all those wonderful goods at less than cost—you and I—will also be the ones who are paying the costs of the cleanup.

It's not going to be easy. Along with the accounting problem, which is hardly trivial, we face the "NIMBY" phenomenon: it is always the price someone else pays that is too low and should be raised. The goods we want are too expensive already. Raise the price in somebody else's back yard. This is a universal human attitude, deeply encoded in the protoplasm, and it is not going to go away. We will have to find a way around it.

### Liberals will have to be prepared for markets as we have never seen them.

Questions of equity also lift their hydra-shaped heads here. What happens to the poor when the massive externalities involved in industrial agriculture and housing construction are internalized into the costs of food and shelter? Clearly, some form of social lifeline is going to be necessary. Conservatives who demand an end to welfare as we know it had better be prepared for welfare as we have never seen it. It is either that or the revolution.

Liberals who castigate markets as the source of all evil will also have to be

prepared for markets as we have never seen them. Pollution is a market-related problem, but that is precisely the reason that markets must be used to solve it. Any other solution will, of necessity, be imposed. A market solution will be integral.

What will that market solution be? Perhaps it will clarify if we realize just what, biologically speaking, pollution really is. Pollutants, per se, are not the problem; the problem is the overwhelming of the biosphere's defense mechanisms. Ecosystems can absorb small amounts of just about anything and render it harmless. This capability—known as assimilative capacity—varies widely from substance to substance and from system to system. But it is always a measurable, discrete quantity, and it is always when it is exceeded—and only when it is exceeded—that damage begins.

It should be obvious where this is leading. Assimilative capacity is a good. Sell it.

Determine the assimilative capacity of each environment for each substance released into it. Create permits authorizing discharge up to the volume the environment can safely absorb. Auction them off to the highest bidder. This is already being done in a limited, unsystematic way. It needs to become our primary tool.

Since it is government that will collect the fees for this, conservatives will predictably grumble about higher taxes. Let them. It is not actually taxes that are being levied here: the government is merely selling something that belongs to it, collecting the money for it, and stopping when

it runs out. It is a straight market transaction, and once that is understood the grumbling will lose its force.

Environmentalists will also grumble—in their case, about selling "permits to pollute". Let them, as well. These are not permits to pollute: pollution does not start occurring until assimilative capacity is exceeded, and the whole point of this exercise is to make sure that doesn't happen. Substances will be released, but pollution will not normally occur.

When pollution does occur, there will be a simple, straightforward remedy. No laws against releasing pollutants are needed, only laws against theft. If assimilative capacity is a good, and all of it is owned, when pollution occurs it can only mean that someone has attempted to use someone else's assimilative capacity. That is stealing, and we can treat it as such. The polluter really will pay—with jail time.

Who is the polluter? It is the person who abuses assimilative capacity. Right now, that is every one of us. Let us unhook ourselves from that wagon. The best way to do this is to pay until we can no longer afford to pollute. At that point, pollution will cease and not before.

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