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# Letters

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We welcome letters from readers, particularly commentaries that reflect upon or take issue with material we have published. The writer's name, affiliation, address, and telephone number should be included. Because of space limitations, letters are subject to abridgment.

## Transcending Cost-Benefit Calculus

TO THE EDITOR:

Your Winter 1990 issue excoriates recent environmental coverage by the major newsmagazines, contending among other things that I wrote ("Cleaning Up Our Mess," *Newsweek*, July 21, 1989) that environmental issues have passed "beyond benefit-cost analysis." You further complain that any "decent respect for the facts" would have led me to mention three things: that the ecosystem itself is not in danger of destruction, that market-based environmental remedies may be preferable to traditional regulation, and that environmental benefits must be weighed against cost.

Actually what I wrote was that environmental protection "transcend[s] cost-benefit calculations." Further, points one and two of your inventory were not only mentioned by *Newsweek*, but prominently so. The entire first page of my cover story was devoted to the reasons for believing that the ecosystem itself is not threatened: the first two sentences of the article read, "In the aftermath of events like the Exxon Valdez oil spill, every reference to the environment is prefaced with the adjective 'fragile.' Nothing could be further from the truth." Later in the text, I defended emissions trading as a market-based control mechanism for air pollution.

Your misquote of me was small, but had the compensating virtue of also being somewhat out of context.

The full sentence asserts that environmental protection "transcends cost-benefit calculation" because it is a social good.

As *Regulation* knows, classical liberal democratic philosophy has long held that some social goods—personal and property rights, freedoms of religion and conscience, etc.—ought to be safeguarded regardless of how they affect the calculus of productive efficiency.

It may be perfectly fair to use cost-benefit analysis as, say, the tool for judging certification of a new drug that would help a large number of people while injuring a tiny number. In a context like that it might be entirely proper for policymakers coldly to weigh health gains and avoided health-care expenses against likely litigation costs and compensatory payments to the injured. Numbers along these lines can generally be derived with reasonable accuracy, so that policy decisions stand a good chance of being rational; whether or not to sanction any particular pharmaceutical has no larger meaning to society; and if an error occurs, a bad drug can be withdrawn from the market very rapidly, leaving no harmful legacy.

Protection of the ecology differs from this kind of cost-benefit test in all three respects.

First, numbers are difficult to derive accurately. Historically, cost estimates for pollution abatement have usually been far higher than actual expenditures, because estimates are based on technology existing at the time a regulation is passed—before there exists a market incentive to innovate. Environmental benefits are hard to project because in the case of most health degradation it is nearly impossible to know whether any given person or group would or would not have gotten sick had the environment been cleaner. Even tightly controlled clinical trials rarely succeed in isolating specific environmental exposure factors. Nor is there any rational way to assign benefit value to

the beauty of nature, the life-quality enrichment that comes from having wilderness preserves and parks, and so on.

Environmentalism, meanwhile, bears on shared values. Other things being equal, society ought to preach conservation over waste; cleanliness over carelessness; respect for whoever's property is downriver or downwind.

Finally, damaging the environment may be irresponsible to our descendants who cannot have a voice in current policymaking, but whose interests should be high in our minds notwithstanding. Of course environmentalists exaggerate by pretending that pollution is irreversible; the ecosystem of Earth has shrugged off far worse than humanity has thrown at it. But such corrections happen over geologic time, and may be unpleasant for living things in the interim. Why, if we respect our children's prospects, take any avoidable risk of rendering their lives ecologically imperiled, or even unpleasant?

The proper test for environmental regulation should not be cost-benefit analysis but reasonableness. I know economists blanch at that term, because it engages subjective human emotions and does not translate well into bar graphs. But that's real life, and real life cannot be assumed away with a model.

Huge expenditures for infinitesimal environmental gains do not pass a reasonableness test. This is why, for example, *Newsweek* advocated that Congress abandon such quixotic goals as lowering cancer risks at the factory gate to below one in a million, in favor of more pragmatic emissions control systems like performance standards. But many environmental improvements can be achieved at reasonable cost and will contribute mightily to the social good.

Gregg Easterbrook  
Contributing Editor  
*Newsweek*  
Washington, D.C.

P.S. Like the editors of *Regulation*, I too admire my competitor *Time* for its courageous declaration that "our stand on the planet is that we favor its survival." Roll over, Patrick Henry! Getting this bold policy out into the open will help *Time* make its copy even more snazzy, eliminating that annoying formality of balancing stories by quoting from peo-

ple who do not favor the planet's survival.

NISKANEN responds:

My *one* argument with Gregg Easterbrook's fine *Newsweek* article on the environment is his conclusion that environmental protection "transcend[s] cost-benefit calculations." (My apology for the minor misquotation.) The above development of his conclusion, however, does not resolve this argument:

First, the problems of estimating the benefits and costs of environmental protection make benefit-cost analysis difficult but not irrelevant. The benefits are especially difficult to measure, but one should at least be cautioned by the failure to find *any* direct epidemiological evidence of the alleged adverse effects of a wide range of synthetic compounds already subject to regulation—including most air toxics, food additives, pesticides, and CFCs. Easterbrook is correct that the private estimates of costs are usually high, but the government estimates are usually low.

Second, a shared environmental ethic is especially important to reduce such problems as litter and graffiti, because no acceptable system of monitoring and sanctions is sufficient for this purpose. Benefit-cost analysis, however, is the primary form of reasoning that is useful to sort out whether moral suasion, a broader extension of property rights, selective taxes, or regulation is the most effective and efficient means to address specific environmental problems.

Third, some forms of pollution have long-lived effects. This presents a special problem for democratic politics, because our children are not adequately represented, but not for benefit-cost analysis. And one should also recognize that measures that reduce economic growth also have long-lived effects. The one condition that best explains both health status and environmental conditions, both over time and across countries, is the level of real per capita income. Environmental measures for which the present value of the benefits are less than the costs are likely to reduce both economic growth and the general quality of the environment.

As a substitute for benefit-cost analysis, Easterbrook proposes a standard of "reasonableness." That may be correct, but it is not very helpful. Reasonable by what crite-

ria? Reasonable to whom? In the Lord's Prayer, we pray to "forgive us our trespasses." Pollution is a trespass. Government regulation is also a trespass. Neither has any moral sanction. Our moral challenge is to reduce some weighted sum of the harm that we inflict on others. And, until someone has a better idea, careful benefit-cost analysis is probably the best way to meet that challenge.

W.N.

### Toothpaste, Rap, and Clean Air

TO THE EDITOR:

The resistance of most market-oriented analysts to applying to environmental issues the principles they apply elsewhere in the economy is perplexing. Robert Hahn's article on the Clean Air Act ("The Politics and Religion of Clean Air," *Regulation*, Vol. 13, No. 1, 1990) illustrates this phenomenon. Hahn laments that "one of the more curious notions to emerge from the constant stream of political rhetoric on the environment is that Americans have an *inalienable right* to breathe clean air. If we take this as a religious truth. . . ." In this essay, clearly, religious is not to be taken in a positive sense, but rather to mean something not quite legitimate, certainly something that ignores "science and economics."

This hostility to the demand for clean air and the call for decision making on the basis of "cost-benefit" balances seems inconsistent with basic premises in market theory. The theory of a market economy and its basic concept of equity is that transactions must be freely agreed upon and based upon mutual exchange. I have the right to allow a company to park its trucks on my land; similarly, I have the right to refuse to allow such use. Surely it does not require bizarre religiosity to conclude that by the same standards I must agree before someone else places potentially harmful substances into my lungs. It is not my *right* to clean air that should be doubted, but the emitter's right to destroy a common good, the atmosphere, which he does not own, save by common consent. Cost-benefit analysis provides neither voluntariness nor real transactions. Those put at risk do not freely agree to the risk. Those who pay the costs are typ-

ically a different group from those who receive the bulk of the benefits from any particular pollution source.

From an economic efficiency standpoint, clean air is a commodity, like toothpaste or rap music. The public wants this commodity, just as it wants national defense. Like national defense, clean air must be purchased collectively—it is not something that some individuals can enjoy in a neighborhood while others pass it up. We secure the national defense through a combination of regulatory measures and government expenditures; the public pursues its desire to enjoy clean air in the same fashion. Just as one can justifiably question whether we are getting the national defense we want in the most efficient way, the question of whether our current clean air programs get us the commodity efficiently is important and certainly debatable.

Why, then, do Hahn and so many other market advocates turn the question on its head and argue that the public should not want, and has somehow been manipulated into wanting, an *inappropriate amount* of air quality? They would not devote similar rhetorical energy to the question of whether the public "wants" an inappropriate quantity of toothpaste; people have the right, voluntarily, to consume or not to consume toothpaste. Similarly, they should have the right to consume utterly clean air, if this is what they want and if, collectively, they are willing to pay the price.

There are problems with efficient production of goods that must be consumed collectively. Both defense and clean air programs are vulnerable to common imperfections, and a great deal of analytical work needs to be done to improve both. It is also legitimate to debate whether a given increment of improvement is desirable or not—just as the appropriate level of national defense spending should be the topic for vigorous debate. I might wish that my fellow citizens chose to purchase less rap music than they do; but I do not pretend that their preference is illogically founded in a religious misconception of their rights.

The resistance of market advocates to accepting the validity of the public's demand for environmental goods has an unfortunate consequence. Market solutions to producing environmental goods *efficiently* are not taken so seriously as they de-



serve because their advocates seem hostile to the very environmental goals their approaches are to yield. Successful automobile salesmen do not begin their approach to a customer by saying, "Look, you don't really need a new car and it's all part of a silly and manipulated concern you have for your status and image, but if you really want to ignore science and economics, have I got a deal for you."

Carl Pope  
Conservation Director  
Sierra Club  
San Francisco, Cal.

HAHN responds:

Mr. Pope notes correctly that there is a difference between the demand for toothpaste and the demand for clean air. The reason we economists do not get exercised about toothpaste purchases is that the marketplace handles such private decisions rather well. Unfortunately, the market does less well on matters involving common property, such as clean air. This is precisely why government has an important role to play in shaping solutions to environmental problems.

There are two questions one might ask about the government's role—one positive and one normative. The positive question is why government behaves the way it does. I tried to address that question in my article. The normative question relates to what government's role should be.

Mr. Pope and I fundamentally disagree on the normative conception of what government should be doing on environmental issues. I would like to see government develop environmental policy with greater reliance on standard economic tools. Unlike many economists, I do not adhere to the religious view that benefit-cost analysis should be the sole determinant in setting goals; nor, however, do I share the religion of many environmentalists, which says that the environment is priceless, and, therefore, the very discussion of costs and benefits is sacrilege. Rather, I would like to see benefit-cost analysis play an important role in major public-sector decisions on environmental issues. Moreover, I would like to see greater attention paid to the *approach* to improving the environment. I think the only way to make sustained environmental progress is to adopt economic approaches that provide industry with a greater incentive to reduce wastes and invent more effective and efficient pollution control methods.

Mr. Pope says that professional economists could win more friends and influence more people if we would only recognize that the public demand for environmental quality is higher than we would like to admit and that we should not question the "facts." He is probably right: We could certainly have more friends—after all, who isn't an environmentalist these days? But, unfortunately, the facts about the public's demand for improvements in envi-

ronmental quality are subject to dispute. The public is no doubt willing to pay a bundle for improvements in environmental quality so long as it does not see a direct connection between environmental quality and the availability of ice cream cones and VCRs. But if the connection were made more explicit, and the public were asked to pay directly, say through a rigorous inspection and maintenance program for vehicles, the measure of public demand could be very different. Of course, politicians and environmentalists go out of their way to conceal such costs so that the public will be more likely to go along. I do not like that part of the game, but it is unlikely to change.

So where does that leave us? Reasonable people will disagree about the government's role in selecting environmental targets. They will also disagree on the role of economic analysis. I am delighted, however, that a spokesperson for a leading environmental lobbying organization is willing to use economic logic in questioning my arguments. It makes me cautiously optimistic that together we will be able to design more effective and rational environmental policies in the years to come.

Robert W. Hahn

### Preaching to the Choir?

TO THE EDITOR:

I am now about three-quarters of the way through the revived *Regulation*, and I am taking up my pen to congratulate you on having saved it yet again. How nice it is to have *Regulation* back! I am especially enthusiastic about this issue, clean air maven as I am; I hope the same high standards will be applied to the other issues you feature. I am sure they will be.

Permit me one observation. It strikes me that *Regulation* has consistently been guilty of preaching to the choir. This might be avoided if an effort was made to reach out to those thoughtful critics of markets and/or deregulation from time to time. I think back to Steven Kelman's 1981 piece on the vicissitudes of cost-benefit analysis, for example. While many readers disagreed violently with him—myself included—his piece probably educated a lot of them about what the "opposition" was thinking.

Pieces on the case for regulation—whether of greenhouse gases or day care centers—would make *Regulation* a better and perhaps more widely read magazine, in my view. I hope you will make an effort to reach out to proponents and offer them a forum other than *ex post facto* letters of reaction. I am sure this is easier for me to recommend than it is for you to do; such is the nature of arm-chair supervision. But if there is any way I can help you identify such spokesmen, just give me a call.

Once again, congratulations, on having breathed fresh new life into an important journal. I look forward eagerly to future issues.

Paul R. Portney  
Vice President  
*Resources for the Future*  
Washington, D.C.

### Tilting the Marketplace

#### TO THE EDITOR:

Someone once observed that the world of politics is 30 years behind the world of thought. Your recent series of articles on air pollution control and the pending Clean Air Act legislation (*Regulation*, Vol. 13, No. 1, 1990) suggests how costly that delay may be. For each of the major components of the legislation—acid rain, air toxics, and “smog” control—the articles set out our existing scientific data base and the reasons for doubting that any of the provisions will achieve significant environmental or health benefits.

In many ways, though, the cost ineffectiveness of the legislation may not be its principal flaw. With every major piece of environmental legislation there are complaints that the legislation amounts to overcontrol or is unnecessary. These critiques are legitimate, but they quickly recede from memory. Yesterday's unnecessary overcontrol becomes tomorrow's reasonable provision, as even newer control requirements are pressed. The Clean Air Act debate has followed that pattern over the past two decades, and industry and many academics now wistfully refer to the 1977 Clean Air Act amendments as reasonable legislation. We will be lucky if the world of politics is *only* 30 years behind the world of thought.

The real news in this Clean Air legislation is not that it costs too much

but that it is now a dominant vehicle for setting national industrial policy. The combination of a “motherhood and apple pie” issue with a broad statute that affects nearly every industrial activity in the country has proven to be an irresistible invitation to tilt, warp, and bend the marketplace. This is not a new phenomenon in Clean Air legislation. The alliance of the high-sulfur coal industry with environmentalists in 1977 showed the way and demonstrated that Clean Air legislation could be used to lock in markets (the product of that alliance was the so-called percent reduction requirement that was designed to negate the market advantages of low-sulfur coal). But what was begun in 1977 is now being pursued with a vengeance across a broader industrial field.

The pending legislation is nearly 700 pages in length and is as riddled with marketplace manipulations as the Tax Code. For example, our energy policy into the next century is being set by this legislation, whether the issue is the amount of electric power growth allowable, the sources of energy that can be used, or the fuels that will power our cars and trucks. All sides are trying to skew the structure to their advantage. In the acid rain debate, for instance, the administration originally proposed an emissions trading system based on allocating emission “allowances” to individual utilities. These allowances, in effect, will determine the future growth capacity for any utility system. The administration's proposal had two formulas for determining allowances. By the time the bill was through the Senate Environment Committee, there were 8 formulas; there are now 20 and the number is still climbing. These include such classics as special allowances for a “State which has experienced population growth in excess of 25 percent between 1980 and 1988 (according to State Population and Household Estimates, with Age, Sex, and Components of Change . . .).” For the uninitiated, this means Florida.

The same struggle for market share is being played out in the alternative fuels area, as the farm vote has discovered that environmental issues provide an opportunity to specify ever larger percentages of ethanol for automobile use. And similar battles are occurring in nearly all other industrial sectors.

This is, of course, standard fare

for the legislative process. What is unique is not the drive for special interest protection, but the breadth and scope of this legislation. Long after the excess costs of this bill are forgotten, we will be living with the industrial policy decisions that were disguised as environmental votes, and in the long run, those decisions may be the most costly.

Francis S. Blake  
Partner  
*Swidler & Berlin*  
Washington, D.C.

### Let NAPAP Reign

#### TO THE EDITOR:

Implicit from the information in J. Laurence Kulp's article on acid rain (“Acid Rain: Causes, Effects, and Control,” *Regulation*, Vol. 13, No. 1, 1990) is the fact that we are not in a crisis situation with regard to acidic deposition; we are not on the brink of an ecosystem disaster as some had once feared. And the research findings from the 10-year National Acid Precipitation Assessment Program also point to such a conclusion—that under present levels of deposition we are not likely to see meaningful changes over the next few decades. Such a situation has important legislative implications.

Reducing emissions of acid rain precursor gases can certainly be beneficial. The question we face is not whether more emissions reductions are wise but at what rate should they be reduced. Emission goals can be achieved by many means: by mandating immediate specific reductions of precursors (as now being considered in Congress) or through more stringent New Source Performance Standards that, through advanced technologies, would achieve the same goal at lower cost and at the gain of the new technologies, but over a longer time period (up to 20 years) but with little difference in acid rain effects.

Inasmuch as we are not facing an imminent crisis, we do have time to examine different approaches and implement that which serves society best in terms of both cost and environmental benefit.

Ralph M. Perhac  
Senior Science Advisor  
*Electric Power Research Institute*  
Washington, D.C.

## Broadcasting's Future

TO THE EDITOR:

The enlightened assessment of the political economy and the rules of engagement by which the telephone industry seeks entry into the video marketplace provided by Thomas Hazlett ("Should Telephone Companies Provide Cable TV?" *Regulation*, Vol. 13, No. 1, 1990) is most compelling. His generally excellent analysis advanced the terms of this debate by parsing out the essential positions and values advanced by the various industries involved in this debate. However, his characterization of the broadcast industry's position is not entirely on the mark.

I have three points I would like to make in response to Professor Hazlett's analysis of the broadcast industry's position on so-called "telco entry" that will set the record straight.

First, Professor Hazlett posits the inevitable demise of the medium of over-the-air free television, assuming the invincible superiority of broadband distribution technologies such as fiber-optic and coaxial cable. While broadcasters obviously have a self-interest to protect, we do not think it likely from a competitive standpoint, nor desirable from a policy standpoint, that the broadcast medium will disappear anytime soon.

In a study commissioned by NAB and filed with the National Telecommunications and Information Administration in its "U.S. Telecommunications Infrastructure" inquiry, National Economic Research Associates conclude that not only will the distribution role of broadcasting remain vital to the national interest, but that given an equitable policy en-

vironment, broadcasting can retain a preeminent competitive position in the marketplace.

While the study goes into greater detail, a number of major competitive and public-interest roles for the broadcast industry are determined to have some longevity. These include localism, universal service, free service, emergency broadcasting authority, mobile service (television consumption is increasingly portable), and socioeconomic contributions (e.g., the importance of advertising and programming to domestic and international trade and the socialization and transmission of culture functions).

The broadcast industry requires policy relief so that the value it creates in the marketplace flows proportionately back to the broadcasters. The "if carry/must pay" proposal advanced by the industry is a step in this direction. Under this proposal, broadcasters would be able to tap into the excess profits stream generated by cable operators. Since about two-thirds of the viewing in cable households is of broadcast services, something more than the minuscule payments for distant and no payments for local broadcast services would put the marketplace in better order.

The second point I would like to make deals with Professor Hazlett's misunderstanding of NAB's position on telco cross subsidization, i.e., the ability to use the rate-regulated revenue base to subsidize the competitive operations so as to disadvantage competitors. Simply put, NAB is on record as opposing cross subsidization. We do not believe that it is practical for regulators to adequately enforce any stringent cross subsidization safeguards, however wisely and imaginatively drawn.

The only way to effectively prevent cross subsidization by telephone companies is to restrict their status in the video marketplace to that of common carriers.

Therefore, rather than not being concerned with the cross subsidy issues as Professor Hazlett suggests, this concern is the exact focal point of our position statement. It is curious that Professor Hazlett does not see this. It is my impression that all good scholars check the facts on which they base their analysis, and if Professor Hazlett had bothered to ask me, I would have explained the position in these terms.

The third and final point I want to make is that broadcasters are not Luddites. We not only accept, we welcome the inevitability and even desirability of fiber-to-the-home services. The promise of fiber for adding to the richness and diversity of telecommunications services to the U.S. consumer cannot be overstated. It will take hard work to realize these promises, and certainly existing industries will be affected. Broadcasters will be at the forefront in capitalizing on new opportunities created by having a competitive broadband distribution system available to American homes. Our major concern is that rather than detract from the kind of broadcast and video services consumers now enjoy and that are the envy of the world in building up our new telecommunications infrastructure, let us take a good thing and make it better, not worse.

*John D. Abel*  
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Washington, D.C.