

Letters

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.

Small Business and Pollution Controls

TO THE EDITOR:

B. Peter Pashigian's article ("How Large and Small Plants Fare under Environmental Regulation," *Regulation*, September/October 1983) asks a very important question: Do environmental laws and regulations unintentionally impose more of a burden on small business than on large and, if so, what effects have resulted? I will not take issue with Pashigian's findings here, since the evidence he presents is skimpy (although amplified in another journal), and since the cause-and-effect relationship he deduces is based solely on statistical inference, which traditionally suffers from potentially serious defects.

Instead I want to challenge this statement from his concluding paragraph: "The disproportionate burden placed on small plants in the high abatement-cost industries may be a recognized and accepted consequence of that program or it may be an unintended effect. If these effects were unintended, it is surprising that no serious effort has been made to modify them. Congress and the Environmental Protection Agency usually respond promptly to the vocal complaints of small business. But special treatment for small plants would produce determined opposition from owners of large plants (as well as from environmental groups)."

It is a very large jump from the notion that there is an unnecessary burden on small business to the notion that EPA intends that burden or has done nothing to rectify it. As

an adviser to EPA on small business issues and to the Vice President's Task Force on Regulatory Relief, I have watched EPA take an intense interest in reducing whatever unnecessary burden its actions place upon small business. In my view, it is fully aware that environmental and other regulations significantly affect small businesses' economic performance. Among the specific problems the agency is actively studying are the following: that small businesses have higher unit compliance costs than larger businesses, and less access to policy makers; that they have trouble getting outside financing for pollution-control investments; that the agency lacks adequate information on

the agency looks for legislative measures it can recommend for relief. Reforms are beginning to emerge in specific program areas such as effluent guidelines, many of which exempt small plants. This is all *over and above* the various government-wide measures that address small business concerns, such as Executive Order 12291, the Regulatory Flexibility Act, and the Paperwork Reduction Act.

The most pressing need for small businesses at present is for information about regulatory requirements. EPA offers assistance in this area, but small businesses do not know much about it or make much use of it. They view it as expensive and time-consuming and apparently fear that EPA will "recognize" them as polluters if they step forward for help. EPA will hold a Small Business Conference this spring in an effort to learn more about their needs.

If there is indeed any "unintended small business bias," EPA is doing its best to remedy the problem. It is in the legislative arena that many of Pashigian's concerns—if they are legitimate—must be resolved.

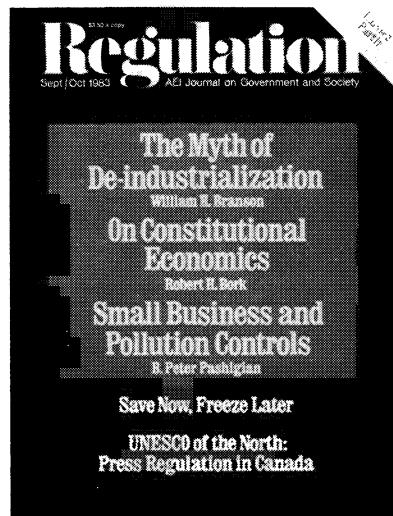
Wilbur A. Steger,
CONSAD Research Corporation

TO THE EDITOR:

Pashigian's analysis would be far more convincing if his data accurately described the costs of the Clean Air and Water Acts as he claims. Unfortunately, Pashigian (along with others) has been misled as to what the Department of Commerce's estimates of pollution abatement costs and expenditures really mean.

Those estimates are of total expenditures for pollution control, regardless of why the expenditures were made. What many forget is that pollution control was not invented by the government in 1970. By then, many industries had already had long histories of pollution abatement expenditures, as a result of local ordinances, concern for worker safety, need for materials recovery, and simply good citizenship. Thus the estimates hardly describe the *incremental* costs of complying with EPA regulations.

Indeed, Resources for the Future (RFF) data based on engineering analyses of the regulations indicate that the incremental costs of EPA regulations to certain firms in highly polluting industries are often zero. The reason is that when the



the impact of its policies on small business; and that policy makers neglect the cumulative effects of agency regulations and, in fact, do not adequately understand their own regulations as well as they should.

EPA has a Small Business Ombudsman who helps small businessmen gain access to the agency and comply with its requirements, and who works on policies and regulations to provide maximum flexibility. Where a statute is responsible,

agency drafts the permit guidelines it often defines the "best technology"—which is what the regulations call for—to mean what the big firms are doing anyway.

Because of that interpretation and because new sources often face more stringent standards than older sources, the regulations probably do help strengthen big firms relative to smaller ones, as Pashigian claims. However, the real sufferers from the policy may be the medium-sized firms, not the very small ones. Small-firm exemptions from the regulations are quite common, and even when small firms are not exempted they are frequently given weaker standards. However, the quantitative effects are still to be determined. I suspect from examining our own RFF data on incremental costs, which are much lower than indicated by the Commerce data, that the effect of these costs on the size distribution of firms is much smaller than Pashigian believes.

*Henry M. Peskin,
Senior Fellow,
Resources for the Future*

PETER PASHIGIAN responds:

Wilbur Steger tells us that the Environmental Protection Agency has seen the light. It is now, if somewhat belatedly, addressing those problems of small businesses that are caused by compliance with environmental regulations. According to Steger, EPA now has a Small Business Ombudsman to help small business. It also tries to provide maximum flexibility and to reduce unnecessary burdens placed on small business. What should we make of this list and these assurances?

Steger asks us to judge EPA by the efforts it has made to rectify the situation, not by the results of those efforts. His argument would be far more convincing if he showed that the agency's new concern had reversed the decline in the market share of small plants. Unless and until a convincing demonstration is offered that it has, many of us will remain skeptical.

And rightly so. The Environmental Protection Agency is, after all, an administrative agency constantly buffeted by the demands of competing interest groups. Its freedom of maneuver has been and is circumscribed. The relative political strength of these competing groups will not change rapidly. Small businesses have not been successful in shaping the regulations in their fa-

vor in the past. They are likely to be only marginally successful in the future, no matter how much advice Steger gives EPA.

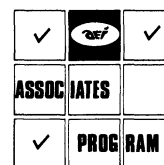
Henry Peskin makes a valid point. The census pollution abatement costs are not incremental costs caused by compliance with environmental regulations. He also agrees with me that the regulations have probably helped big firms relative to small firms. But he then goes on to venture the conjecture that, because incremental costs are relatively small, the effect of compliance costs on the distribution of firm sizes is probably smaller than I estimated.

Here again, evidence would be more useful and persuasive than words. Let us grant Peskin's assumption that incremental abatement costs are relatively small and see where it takes us. In that case, the census data on abatement costs are not really that much different from what the plants would have spent in the absence of environmental regulation. There would be no reason for the performance of the high pollution-cost industries during the seventies to have differed from that of the low pollution-cost industries.

The evidence, however, shows that in the high pollution-cost industries small plants lost share in the seventies after gaining share in the sixties, while in the low pollution-cost industries small plants gained share during the seventies. We also know that plants in the high pollution-cost industries became more capital-intensive during the seventies than in the sixties and relative to plants in the low pollution-cost industries. How are these differential changes to be explained if incremental compliance costs were relatively small? The available evidence seems inconsistent with Peskin's theory.

Every economist would like to have more and higher-quality data, and I refuse to set a precedent by announcing my contentment with the existing cost data. But those data have proved useful for classifying industries into high- and low-cost groups and for isolating differences in the relative performance of the two groups.

Peskin's last point is that moderate-size firms may be harmed most by the compliance program. I did not find such a result. But this is an interesting and plausible hypothesis and deserves further investigation. Perhaps Steger can advise EPA to fund such a study and persuade Peskin to head it up.



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