

SLEEPING WITH THE ENEMY: ECONOMISTS WHO SIDE WITH POLLUTERS

By Dr. Mason Gaffney, Riverside, CA

"We soon discovered ... the danger of allowing economic policy to be dominated by business or financial interests or, which usually comes to the same thing, orthodox economic analysis" - economist Ray Marshall, Secretary of Labor, 1977-81, in *Unheard Voices*, 1987, p.ix

Privatization bias from an early date

There are such exciting headlines every day, it is easy to forget yesterday's. Do you remember much about last summer's Deep Horizon oil spill in the Gulf of Mexico? BP and various Federal agencies probably hope not. Do you remember the Exxon Valdez disaster in Bristol Bay? Not likely, unless you live right there. Still, courts and regulators turn to economists to fashion remedies and preventives. When your children, and future jurists and regulators and legislators study economics in college, how do their mentors prepare them to act?

In the last 60 years or more they have dipped into them, and even plunged, yet these accidents keep happening, huge ones that make headlines, plus a stream of lesser and routine ones. The Exxon Valdez victims are still waiting to recover damages, which the courts have whittled down over the years. The overall world environment seems to be worsening slowly but inexorably, from a thousand polluters, each too small to control. What do "mainstream" professors say about all that? They say a lot nowadays, hemming and hawing professorially, but what would they have us do? "Statesmen wise, Privatize!" has been the chant for many years now.

The idea of private property as a panacea had been around a long time before Garrett Hardin popularized his "lifeboat theorem" (throw newcomers overboard before they sink the boat), and the von Mises Institute, American Enterprise Institute, CATO Institute, and a dozen like-minded organizations funded by major rent-takers, got behind Jesus Huerta de Soto cleaning up the favelas by privatizing their land. Rev. Thomas Malthus, of course, had given his name and a patina of Christian piety to such views back around 1800. Arthur Young, 1741-1820, was a leading proponent of the (3rd or 4th) enclosure movement in England. His catchphrase, "The magic of property turns sand into gold", was common coin for years before Hardin trumped it with "The Tragedy of the Commons". Truth struck to earth will rise again, they say, but so, alas, will error, and every generation reenacts old battles for its times.

Pardon this writer now for mixing personal reminiscences with other history, for I got involved in several of these issues from the beginnings of my career in the 1950s, and can report on what I saw and experienced. A group of fisheries economists were among those reviving the issue following Scott Gordon, 1954. Fisheries are like an open range, so they said, that will be ruined by overuse unless interlopers are fenced out by limiting and privatizing licenses to fish in certain areas. So, by simile, must we protect other wild creatures (*ferae naturae*), waters, the air, radio spectrum, public roads, public schools and libraries, airplanes, harbors, parking spaces, and you name it, a long list. There is a lot of truth in it, making

some sense to economists schooled in diminishing marginal productivity.

Handled skillfully it seems consistent with Ricardo's law of rent. Henry George himself had upheld the important role of secure tenure to land. It swept all before it. Economists in the same vein included Francis Christy, Jr., Giulio Pontecorvo, Parzifal Copes, Anthony Scott, "Reds" Wolman, and others. In Chesapeake Bay it was a good thing that organized "Watermen" had divvied up shellfish beds, overriding the public trust doctrine and keeping them from shooting each other and extinguishing all the soft-shelled clams.

As to surface waters, resource-economists in the 17 arid western states rarely touched the topic without first protesting their allegiance to the sanctity of private vested interests based on histories of prior "use", however factitious and however sullied by Henry George's "force and fraud", two spare words that hardly do justice to all they cover, like conquest, violence, corruption, stealing, graft, ethnic bias, pettifoggery, differential financial power, and even at best, obsolescence. In practice, prior "use" has been faux (phony, that is), simply proportionate to prior ownership of land. This has overridden State constitutions that ALL say that ALL the waters in the State are the property of the people of the State -nothing there about just the landowners of the State, a point rediscovered by U.S. Chief Justice Earl Warren in his opinion overriding the California Supreme court in the classic case of *Ivanhoe Irrigation District v. Courtney McCracken et al*, 1958 ("The Central Valley Project is to serve people, not land" wrote Warren).

Lost in the torrents of praise for private tenure has been the process of privatizing the public domain: who would get the tenures, and how? How would the process affect their motivations? This is vital because the process comes first, and is ongoing as more and more public domain is privatized, and progressive intensification of use calls for more and more stringent forms of tenure: from hunters to trappers, from trappers to shepherds, from shepherds to cattle ranchers, from ranchers to plowmen, from plowmen to irrigators, from flood and furrow irrigators to sprinkler and drip irrigators, from dairymen to croppers, from root-croppers to viticulturists and horticulturists, from them to greenhouses, from them to hunt-country estates, from estates to housing, from housing to subdivisions, from them to garden apartments and stores, from them on up to low-rise, then high-rise apartments, to industry, retail commerce, offices, towers ... each step, and several in between, needing closer tenures, while down below there are minerals and hydrocarbons in situ, in between are rights of way, and above there are airplanes, air the gas, the radio spectrum, and whatever comes next.

The dominant, if not universal process of privatizing is summed up in the two paramount principles in the "appropriative doctrine" of water law: "First in time, first in right"; and "Use it or lose it". The first one says that grandfathers take the easy pickings while grandchildren and other late comers have to struggle or pay for what is left, or go without. The second one says, in practice, you must go through the motions of "using" the resource, however factitiously, however wastefully - (continued on page 8)

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and this, in turn, often means owning land on which to waste it. Then it is "Waste today, want NOT tomorrow."

Think about the incentive structure this process creates. The value of appropriating a resource today is the rent you expect it to yield tomorrow, and tomorrow, and tomorrow, to the last syllable of recorded time. To appropriate it today you waste it today. Then you support economists to tell the world that you must privatize it in order to keep from wasting it.

The Preemption Act of 1841, and later The Homestead Act of 1862 represented a primitive form of prior appropriation, where people suffered hardship and danger for years to establish private tenures over public lands. In national mythology this is how we won the west, labor-intensively, but later historians showed that capital, "front-money", was the key to winning private tenures from public domain. Ever since it has been that, the ability to survive economically while losing money for years. In addition it has been ability to finance "land-grabbing" forms of new and superior capital: bigger faster fishing boats, sonar, higher-powered rifles, pumps to keep water from drowning out deeper mines, canals and then railroads, dredges, levees, broadcasting stations to establish usage of radio frequencies, weirs and ditches to divert surface water, deepwell turbine pumps for groundwater, advanced geology for minerals and hydrocarbons ... whatever it takes to rape mother Earth.

Pigovian Efforts to Ally Economists with Enviros and Natural Scientists, 1961-73

Meantime a more settled and in some ways civilized nation, England, with its imperialists scattered abroad, spawned Cambridge Professor of Economics Arthur Cecil Pigou, successor of Alfred Marshall. Pigou put his name on a simple, workable, common sense way of using familiar supply/demand theory to ration public domain among private users: put a price on it. If we made the price of anything like, say, butter, free, we would immediately create a shortage, as demand rose and supply fell. So charge people for polluting the air, reasoned Pigou, and we needn't use "command and control" techniques to teach good manners to polluters. We can use a market mechanism, clean the air, equate supply and demand, and raise public revenues all in one stroke.

It was only an academic theory for years, and the Professor's Huguenot name sounds vaguely swinish, but such charges are still called "Pigovian". For his pains, his critics are now, in this year of our Lord 2011, wasting serious time on rumors that Pigou, a favorite of market-oriented economists from Alfred Marshall to Gregory Mankiw, was a secret Soviet agent. These critics are not just demagogic talk-show preachers from Cape Girardeau, as one might surmise, but supposedly objective professors, stifling a viable alternative to the rival "Coasian" policies, as we will see.

In the reform spirit of the "soaring sixties", with Joseph R. McCarthy in disgrace, and JFK and LBJ at the wheel, Pigou's idea had a chance to flourish. Barry Commoner was a leader among those scientists who had worked with nuclear energy enough to fear its dangers to mankind, a fear that overcame the deep social conservatism that prevails among many natural scientists. Commoner rose to lead the AAAS and published his brilliant conservationist manifesto, *The Closing Cir-*

cle. He led the AAAS in forming its Air Conservation Commission chaired by President James Dixon of Antioch College.

Dixon recruited to his Commission a number of distinguished "hard" scientists like Professor Ari Haagen-Smit of Cal Tech, discoverer of photo-chemical smog, and medics like himself and Dr. John Goldsmith. In addition, *mirabile dictu*, he picked two "soft" scientists, a sociologist and an economist. Hardly any economists at that time had any interest in air pollution, they dismissed it and like matters as "externalities", outside the box of their main concerns that centered on organized markets for regular commodities. So, for lack of anyone more senior, President Dixon picked this writer for that role. Possibly his natural doubts about my "respectability" were overcome by Antioch's revered Professor George Raymond Geiger, author of the monumental *Philosophy of Henry George* and the more readable *Theory of the Land Question*. And/or by friendly supportive Valdemar Carlson, Chair of Economics.

I quickly was to learn that many "hard" scientists, the kind who are now accused of abusing the prestige of science to rationalize growth of government, have a soft side. Dixon opened our first meeting by having each of us suggest a postulate on which we could all agree, as a foundation for further dialogue. I suggested that "Air is common property". Shocked silence! They didn't know whose property it is, but weren't ready for anything so, well, common, and who was I, anyway? After two years they were to let me organize a program bringing in Julius Margolis, Kenneth Arrow, Bill Niskanen and other less suspect economists to explain Pigou. I was able to slip an article in the *Bulletin of Atomic Scientists* (June 1965) promoting Pigovian charges. Still our group disintegrated and finally barely completed a weak and disjointed Report (AAAS #80, 1965). Members were united in their fear of nuclear warfare, but not much else.

I spent the fall of 1967 as Visiting Prof at UCLA and a potential recruit, thanks to my friend Jack Hirshleifer. As Armen Alchian, the alpha libertarian, got to know me better he withdrew his support, because he saw Pigovian charges as "interventions" (improper meddling) in the free market, which he saw as a panacea for all problems, including pollution. Alchian was reflecting and struggling to explain the Coase Theorem, published in 1960, which George Stigler and other Chicago economists had embraced to refute Pigou's notion that air (or any natural resource) is or could be made common property. By 1975 they had spread it with vigor among their disciples nationwide and worldwide. It was to displace Pigovian charges as the market-based solution to pollution.

A dangerous fallacy in Pigou, to Chicagoans, is that Pigou presumes that air is public domain that polluters should pay for dumping their gasified garbage there. Coase, in practice, is compatible with assuming that polluters have established *de facto* ownership of the air in the form of tradable permits, by virtue of their histories of having polluted it for years before. Bankers like this too, because to buy such tradable permits on the market calls for them to get involved in lending up front.

In 1959 I moved to Resources for the Future, Inc. (RFF). RFF was entering a new (continued on page 9)

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phase, having erroneously concluded that we faced no problem of resource scarcity, its original remit. RFF refocused its work on "Quality of the Environment", i.e. pollution control. The very avatar of this program was Allen Kneese. He hailed from New Braunfels, TX, an idealistic German-American colony like pre-Disney Anaheim. It had spawned Judge Emil Fuchs, conspicuous single-taxer of the prior generation, so it was no strain for Kneese to postulate that air is common property. He was a prodigious worker with an idealistic streak compatible with Pigou. He made a name by showing how effluent charges applied to wastewater in the Ruhr Valley had cleaned up one of the world's dirtiest industrial sewers. Younger staff members idolized him.

This approach was making progress with Charles Schultze of the neighboring Brookings Institution, a good weathervane of liberal thought, and with the LBJ administration, 1963-69. Vermont and some other States got charging for water effluents, although only in token ways.

After 1969 the Nixon administration got quicker action by turning to a third German-American, Wm. Ruckelshaus of Indiana. He took out the meat-axe and used the "command and control" approach to abating air pollution, an approach that is anathema to both Pigou and Coase. Kneese had stressed the virtues of animating polluters to modify both their products and processes, by their own chosen methods, to avoid charges and fees based on monitoring their effluents. Ruckelshaus instead mandated the use of specific devices, like electric precipitators of legislated makes and models, on smokestacks. Kneese and friends demeaned these as "tail-end Charlies", as they took effect only after the industrial process had already produced the pollutant.

Over time, "command and control" has given way to the present "cap and trade" approach, favored by established polluters to whom regulators like the South Coast Air Quality Management District (AQMD) grant tradable (salable) permits based on their histories of pollution. These formalized grandfather rights are a new form of valuable property in a natural resource, the air we all breathe. They trade actively, for millions of dollars apiece, but are not even taxable as property. Bankers who finance the buyers, and brokers, also support this approach, for their own reasons. We will even see how one broker, Ann M. Sholz, got away with selling the same permit to several different buyers.

RFF, Inc. Drops Pigou for Coase and Stigler

In Kneese's heyday at RFF the corporation enjoyed a remarkable, unconditional grant from what was then a remarkable institution, The Ford Foundation, from which all blessings flowed, accompanied by respect for academic freedom and initiative. Researchers at RFF were free to follow their hunches and consciences into what they saw as important avenues to improve human welfare. It was too good to last. From about 1973, Ford phased out its unconditional support. RFF scholars had to become grantsmen and they did, with all that implies.

My own hunches and findings had led me into probing the extreme undertaxation of timber, its growth, its income, its harvesting, and the vast lands it preempts. A distinguished senior professor in Yale's School of Forestry wrote that he would

attack me in professional journals if I persisted. Marion Clawson, my longtime patron and role model, told me my reputation was slipping. He published attacks on Federal forest managers while sparing private ones, who were granting large funds to RFF. A smooth forest lobbyist invited me to cruise on his yacht (I declined). My old Missouri friend, Professor Pinckney C. Walker, whom Harry Gunnison Brown had handpicked to succeed him, came to town as a Nixon-appointed Federal Power Commissioner and hosted me with his protégé, one Kenneth Lay, later to be known for the Enron scandal, and for endowing the Pinckney Walker Chair at Missouri - quite a comedown from the ideals of Harry Gunnison Brown. President Joseph Fisher cooled toward me, replaced my friend and supervisor Michael Brewer, moved me to a bad office, questioned my work ethic, and encouraged me to accept an offer from elsewhere. I was not without fault, but these reactions seemed more severe than the facts warranted.

Kneese stayed on board and on course, but in declining health. RFF seems to have started misunderstanding him. His last work, 1984, *The Southwest under Stress*, with F. Lee Brown, is purely Pigovian, with no hint of interest in tradable permits, but on the contrary, emphasis on more egalitarian distribution of benefits from pollution control. And yet, the official eulogy and exegesis from RFF segues seamlessly from effluent charges to tradable permits, as though they were the same, thus misusing Kneese's name after his death for the Coase-Stigler cause. A full-page obit in *Newsweek*, evidently researched from sources at RFF, makes him out to be 100% a Coasian. Those facts are consistent with an hypothesis that RFF changed its stance to placate the polluting industries that became its major financiers, listed in its annual reports - sic transit.

RFF was left identified mostly with its faith in resource abundance, embodied in their monumental bible, *Resources in America's Future*, edited by Francis Christy, Jr. and Neal Potter, both friends. As a friend, however, I began finding some basic flaws in their methodology, expressed only at internal staff meetings, whereupon a senior official, an OSS veteran, told me in plain language to stifle it, those matters were settled.

Soon, however, the first OPEC price revolution upended the Potter-Christy optimism, leaving RFF looking silly, and me out of favor. At this point I seized a rare opportunity to found a new institute in B.C., with a budget from the Provincial Government and some administrative control, or so I thought.

The B.C. Institute, 1973-76

My Institute sponsored a series of scholarly conferences, published by the UBC Press. One was a major book on pollution control from UBC Press, edited by veteran Irving Fox and tyro James Stephenson. This was to be, in my dreams, a major blow for Pigovian effluent charges. Meantime, though, Coase's influence had spread among establishmentarian economists, fast as an epidemic. Canadian J.H. Dales in 1968 published *Pollution, Property, and Prices*, pushing the idea of tradable permits "to protect the commons" (and enrich the permittees and their bankers who would (continued on page 10)

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advance front money for them to buy the permits). 2/3 of my Canadian conferees embraced this in preference to Pigou.

One of these "Canadians" was retiree Irving Fox himself, who had been Director of Research at Resources for the Future during the ascendancy of Pigovian thought there. This disappointed me, and disillusioned me with conventionally trained economists. I began to understand, better than ever, Ray Marshall's astute insight heading this article.

In principle Coasians profess not to care what worthy few get the original entitlements. Just privatize them and that panacea the market will take it from there. In practice, however, a select company of ancient and honorable polluters get them. We now call these "offset rights," a new form of property. In the L.A. Basin (South Coast Air Quality Management District), a few have grown rich by establishing their respective histories of pollution which they can now sell to others who wish to continue this wholesome tradition. The demonstration effect on those contemplating new and as yet unregulated forms of pollution may be imagined.

Those needing air to breathe? Well, according to the modern philosophers they can enter the market, buy up offset rights and retire them. Thus is fulfilled Robert Ingersoll's forecast a century ago that if some corporation could bottle the air they would charge us to breathe.

My NDP sponsors, never very reliable, lost power in 1976. Just before I was to leave B.C., a committee of the Alaska State Legislature asked me to analyze and propose new ways to raise revenue from hydrocarbon leases on State lands, including Prudhoe Bay. State officials were aware of their need to meet the wiles of oil industry experts in gulling and exploiting unsophisticated natives.

Friend Gregg Erickson, now a veteran Director of RSF, had paved my entry into this contract. He and I had met while we were both at RFF, and we had found each other simpatico - not like some. My remit from the Committee was mainly pecuniary, but nothing stopped me from seeking advice and support from local environmentalists. They were friendly but wary of economists - not without good reason. They were scattered and outgunned, though, so my report gave them little more than token obeisance. They warned me about oil spill dangers - I should have listened better, as we all were to learn later!

(Sleeping With the Enemy will be continued in the next issue of GroundSwell. There is not enough space here for footnotes but they are available from Prof. Mason Gaffney who may be emailed at m.gaffney@dslextrema.com)

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SHAW 'S RESPONSE (from page 5)

is that HIGH! Labor and capital in Altoona will have many choices as to where to work.

I wonder if West Virginians will be going to Altoona for jobs?

You probably have never heard of this fundamental economic concept. Do you know why? It is because the econ professors have purposely derailed the word LAND, so as to protect land speculators, rent seekers and real estate brokers.

See The Corruption of Economics by Prof. Mason Gaffney, Econ professor, U of CA, Riverside, CA.

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BLOGGING THE 2010 ALBANY CONFERENCE

(editors' note: During the July 12-16, 2010 Council of Geor-gist Organizations annual conference held in Albany, NY, Nicholas Rosen took notes and posted them on his weblog, <http://ndrosen.livejournal.com>. Open Mike, hosted by Nico-laus Rosen is an opportunity for those attending the program to speak on any topic. Here are samples of posts.)

Nicholas D. Rosen's Journal

(Post Thirty-Three posted 1-15-11).

Dr. Herb Barry spoke up to recommend the book Prime Minister, by John Stewart. It has romance subplots, and a fiscal crisis. The Prime Minister proposes LVT, to which there is ferocious opposition.

Irene Marmi said that overpopulation is overrated. Other ills are causing our misery.

Dan Sullivan talked about George's Protection or Free Trade?, which he described as brilliantly written and badly edited. Writing it was bad political tactics; it antagonized socialists and labor leaders.

[George spent the first 21 chapters demolishing the case for protectionism, and then in chapter 22, he took a sharp turn, and made the case that true free trade demanded the end of privilege, and the replacement of unjust taxes by land value taxation, a theme which he developed in the later chapters.] Dan Sullivan said that the book would be better with Chapter 22 at the beginning; he's never gotten a leftist to read that far.

He also noted that the von Mises Institute, which is anti-LVT, has Protection or Free Trade at their website. You can read it there if you're interested.

Ed Dodson spoke about "The End of Poverty? Think Again," a film financed by the Schalkenbach Foundation. He's done Part Two, and put up a powerpoint at authorstream.com. He recommends the film and the follow-up.

Post Twenty-Three for July 15, 2010. Posted 11-12-10.

We heard from Robert Wagner (another first timer, I believe). He's from a small village in Vermont, and he was running for state senator. He was one of a dozen people running for public office. He asked why more Geor-gists don't run for public office. He also described Vermont as a resource colony.

(Nicholaus Rosen may be emailed at ndrosen@erols.com.) <<