

# SLEEPING WITH THE ENEMY: ECONOMISTS WHO SIDE WITH POLLUTERS,

## Part II

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(This is the second half of the article started in the January-February 2011 issue of GroundSwell.)

### A California Phase 1, 1976-78

Stymied in B.C., I moved to Jerry Brown's California in 1976. Dave Barrett, Premier of B.C. when I left, was openly jealous of Brown: "What makes him think that HE's a reformer?!" That kind of narcissism had helped Barrett lose the 1976 election, forcing me to move.

At first I thought I was entering heaven (when will I ever learn?). Jerry had proclaimed this to be the new "Age of Limits". He invited me to serve on a Committee on Water Law Reform, and testify on how to economize on water without pain, by having the State collect charges to rein in the major wastrels and polluters, and in an economic way, using the price system, and raising revenue for the State. (Today they call it "Tax bads, not goods".) Veteran Assemblyman Al Rodda kept introducing LVT bills and invited me to testify at one (my implacable heckler was Senator George Deukmejian, a future Governor). Old friend and property tax reformer Ron Welch headed assessments in the State bureaucracy. Bob Pascal, best in the nation, was in charge of assessing mineral and hydrocarbon deposits. Single taxer Dr. Irene Hickman, who had groomed Ted Gwartney, was still raising havoc in Sacto County. Keith and Polly Roberts were organizing and agitating and making top contacts in the Bay Area. Carl Pope, rising star in the Sierra Club, was friendly and supportive. "Small is Beautiful" and E.F. Schumacher were the rage.

The "Clean Air Now" campaign was strong in my new home of Riverside, and I was welcomed aboard, and appointed to the City Utility Board (water and power), as a token, at least, in steering the City into "greener" generating techniques. I was made Chair of Economics and given a budget and authority to invite Amory Lovins ("soft path" technology; "negawatts for megawatts") to lecture all around the University. Robert Maynard Hutchins was still at The Center for the Study of Democratic Institutions on his hill in Santa Barbara thinking deep thoughts along our lines and patronizing a center for appropriate technology, which even outlasted him briefly.

Alan Post, highly and rightly respected, was the veteran Legislative Analyst, a leading non-partisan position. He was pushing for a statewide property tax, a dream of mine, to smooth out intercity equalization. Jerry had Bill Kahrl edit The California Water Atlas, a classic, with the necessary background in geography and institutions to help reform the awful inherited water system. Don Villarejo in Davis was releasing study after study showing the high concentration of ownership of farmland and water licenses. Bill Lockyer was leading the charge to tax oil extraction, and asked me to testify. State Senator James Mills of San Diego put his name on an enabling act to let local voters finance mass transit systems, including BART, by taxing the value of benefited lands. Cars were shrinking, thanks to OPEC; conservation was on everyone's mind. Mass transit showed signs of reviving. Wasn't that a time! Seldom were so many talented and dedicated reformers in one state at one time, pushing good causes, with environ-

ment at the forefront.

### California phase 2, 1978-83

It didn't take long for it all to crash down. The California psyche is bipolar, each pole epitomized in one of its two prominent slogans. The positive pole is "Bring me men to match my mountains", a thought going back to the idealist poet Whittier, echoed in the populist poets Sam Walter Foss and Edwin Markham. Bring me people to build a new and fairer polity, economy, society, attitude, and civilization! That was the Callifornia that gave America a new frontier, with hope and optimism, after the old one had supposedly closed after 1890. Welcome, newcomers, join the old settlers to make a better new world.

The negative pole is "Eureka!, I've got mine, too bad for you." That was the spirit that Howard Jarvis evoked with his Prop 13, 1978. It effectively blocked hope of raising property tax rates high enough to substitute land taxes for building taxes, sales taxes, workmen's comp tacked onto payrolls, business taxes, income taxes, wage taxes, et al. It starved and downgraded the public schools, producing the poorest educated crop of graduates I saw in my whole career, anywhere. Since then California has dropped like a stone in every measure of human achievement except raising asking prices for land - and after 2008 these, too, dropped, bringing the banks and our money supply down with them.

Biocide pollution had become a big problem. Factory-farmers love to spray and pollute the way hunters love to prey and shoot. "Let us Spray" is their prayer, it saves labor that costs money. Conservationists pushed for biological controls, but these use more paid labor, anathema to big landowners. A workable alternative and/or transitional technique is "Integrated Pest Management" (IPM), combining biological and chemical controls. As chair of Economics I recruited from Berkeley a young specialist in IPM, Darwin Hall.

Martin Barnes of our Entomology Dept. got wind of this through some grapevine and visited me to object, indeed to expostulate heatedly, and darkly. It is unusual for one department to interfere with another, even more so across campuses - Entomology is in the old Morrill Act cow college (aka The Citrus Experiment Station), while we are in the new liberal arts College of Humanities and Social Sciences (planned in its 1952 origins to become "Swarthmore West"). Nevertheless I held my temper and asked why. It seems Hall had a footnote in one of his articles to a Robert Van den Bosch, formerly of UCR, whom his colleagues had hectored here until he took refuge in Berkeley (generally otherwise considered an upward move).

The crime of Van den Bosch had been to write The Pesticide Conspiracy, exposing collusion between Entomology Professors, who moonlight as consultants, and giant chemical firms like Monsanto selling biocides. It's a good book - I recommend it.

Next to call was my old friend Delworth Gardner. As a youth he had had some reform instincts, exposing sweetheart leases on BLM grazing lands, people age and join the establishment. At Berkeley he had but (continued on page 8)

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become head of the Giannini Fdtn., the B of A's funnel for subsidizing certain professors of Ag. Econ at Berkeley. Gardner complained that Hall was "not a team player": insiders have their code words you are expected to translate. I did that as he intended, but did not react as he intended: I hired Hall, who worked hard and did well. Mrs. Hall (Jane) came along and got a job teaching environmental economics at Cal State Fullerton, from which base she became prominent with studies showing how abating pollution makes more jobs than it kills. She played politics with a skilled hand, working with Mary Nichols, now head of California's EPA and a favorite whipping girl for polluters, who are strong, rich, vocal, and in control of major media.

Another player was Dean Lowell Lewis of the cow college. He had originally tried aggressively to fund my summers with special grants, but presently came back after a year with the U.S.D.A. in Washington in a new hostile mien, pushing even more aggressively to remove me from heading an intercampus seminar on resource economics. We will soon see this as another neuron in the network.

Before long, the UCR Administration grew restive and sought to wipe out the whole Economics Dept, the surest way to fire a tenured professor without appearing to do so. They began by blocking us from admitting any more grad students, fabricating reasons we easily refuted - but no one was listening. Leaders in the persecution were Deans Leland Shannon of the Grad Division, a physicist, and Harry Johnson, a chemist, both from the faculty of the old Ag Experiment Station onto which U.C. Riverside had been grafted in 1952. There was also Stephen White, a nuclear physicist and consultant to the industry, whom I had offended by showing that the City's investment in the San Onofre Nuclear Generating Station (SONGS) was an economic loser.

Another leading persecutor, working behind the scenes on "confidential" committees with secret proceedings, was Henry S. Vaux, Jr., the son of Berkeley's Forestry Dean, whom I mentioned earlier as a professional ally of Yale's Al Worrell, he who had threatened me for exposing the undertaxation of forests and forest land. Dean Vaux had once offered me a tenure-track job, but was my target (unbeknownst to me) when I exposed the egregious undertaxation of forest lands in California. It was he who had drafted the special forest tax law (California Revenue and Tax Code, Section 434.5) for the benefit of the industry, which owns a big fraction of the lands north of the Bay Area, along with many Legislators in Sacramento. Vaux Jr., on his part, had no qualifications except the family connection. He climbed the administrative ladder quickly to a powerful office at U.C. Central Admin in Oakland, taking Lowell Lewis with him. Yes, Lewis was another neuron in a network.

While they were at it they brought in John Baritelle, scion of venerable Beaulieu Vineyards (BV), fresh from a year of orientation in Washington at the U.S.D.A., making out that he had a worthy publication record, which he had not. He was too gentlemanly to play his assigned role, however, and he disappeared from our scene.

Most people on campus, captives of their one-dimensional political thinking, assumed the Administration's attack on the Econ Dept was to clean out the sandbox Marxists who played there so happily (along with who knows how many Agency "observers"). If so it is odd that they named the senior

one, Howard Sherman, to be new Chair of Economics, and worked with him to redraft our program. It seems possible, therefore, that they were out to get someone else. Wonder who, and why? Meantime, Marxists and administrators worked together to deny Hall tenure. He proceeded to prove his worth in the cleaner air at CSU Long Beach, where he soon became and remained Editor of the Western Economic J., flagship of the Western Economics Assn., inspire students, and build a big program in Environmental Economics.

### Neglect of Non-point Pollution

Meantime, non-point pollution had become a big problem. In fact it always had been, but economists generally ignored it because it does not fit neatly into the market paradigm. Neither Pigovian charges nor Coasian tradable permits are much use for something that cannot be measured and counted. In 1987 an Engineering Professor at Marquette, Vladimir Novotny, had me speak at a conference, and published my paper in his Proceedings. My old friend Peter Nemetz from UBC republished it in his J of Bus Admin, but it struck few further sparks - it had to range too far outside the conventional price system paradigms that box economists in, whether they are Pigovians or Coasians. Barry Commoner the socialist would have liked it, but he was long gone, the voice of another age before Reagan, before the ascendancy of Friedman, Stigler, Libertarianism, and the whole Koch Brothers complex of think-directing tanks that dominate politics and academe today.

### The Ascendancy of Coase-Stigler

Meantime, politicians forged right ahead with tradable permits for polluting air. Old polluters, ancient and therefore honorable, were grandfathered in, both nationally and in the L. A. Basin (The South Coast Air Quality Management District). Making prior pollution the basis of awarding permits for future pollution leads, as noted earlier, to racing, like that of the Oklahoma Land Rush that earned Oklahoma its motto, "The Sooner State". Dan Bromley and Seth Macinko, in a brilliant monograph on fishing quotas, point out that such racing worsens the very scarcity that tenure is supposed to offset. It is a solution that helps create its own problem.

Economists like Vernon Smith of Chapman University, Richard Wahl writing for RFF, Zach Willey writing for the Environmental Defense Fund, and others endorse this doctrine of prior appropriation, to cement in private property in land, the basis for trading, their panacea. Smith, like others, completely ignores the process of privatization. This process not only puts a premium on "soonerism" (rent-seeking), but also commends itself to banks, because the "sooner" needs finance to cover upfront losses suffered in order to establish later tenure; and later entrants need finance again, to buy out the original sooners, and so on. It is the Swedish Rijkssbank that awards what economists misleadingly call the "Nobel" prize in economics. That is not what Smith won the prize for, but it seems likely that had he criticized the symbiosis of banking with

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"soonerism" and other aspects of land speculation, it might have dimmed his prospects. For a revealing MRI scan of Smith and his world, see Tom Frank, *What's the Matter with Kansas?*, the book that first put Frank on the map.

Once pollution is privatized and called a "right" there is no limit to how far academic apologists will go. Richard Wahl, writing for RFF, Inc., is if anything more extreme than Smith. Wahl et al. would bind the taxpayers forever to incur costs of \$60/af or more to deliver water for \$3.50/af to landowners who can resell it for \$400/af. That is the central thesis of the cosmetically scholarly study of Wahl, 1989. He writes of water licenses:

"...subsidized water supplies have become property rights ... Rather than ... reduce the subsidies ... policymakers should ... make the current property interests in ... water more secure and allow voluntary market trading ... " (Wahl, 1989, pp. 3, 5). In numbers, that means some recipients would continue forever receiving water at \$3.50/af that it costs the taxpayers \$60/af to deliver, and they may sell for \$400/af and up as demand rises. In the Palo Verde Valley it means landowners who pay nothing to take raw water from the Colorado River may sell it, as they are now doing, to the Metropolitan Water District for \$620 per year per acre fallowed (Hyduke, 1992; Lambert, 1992). "In 1989 RFF received increased support from the corporate sector for the 3rd consecutive year. This growing support illustrates an appreciation ... for the role RFF plays in ... environmental policymaking (RFF Annual Report, 1989, p.45)."

The recent Great Crash of real estate and mortgage-backed securities based on it has brought out another problem with Coasian institutions. The high capitalized values of privatized rents, actively traded, bring out the worst in some shady brokers. One Anne Sholtz, the Bernie Madoff of pollution permit trading, has demonstrated the art in the L.A. Basin by selling the same tradable permit to several different buyers, somewhat as the Stuart Kings of England gave the same American lands to different courtiers at different times. The following excerpt from a news report gives the gist of it:

"Sholtz's case dates back to July 2002, when the AQMD began investigating her for allegedly defrauding nine different clients, .... For years before then, the woman known for her slick presentations, revealing outfits, outsized ambition and ties to academia and financial institutions had been one of the chief industry architects of the smog-trading bazaar known as the Regional Clean Air Incentives Market, or RECLAIM. Approved in 1993, it was an environmental first, laying some of the groundwork for today's carbon markets. Instead of traditional "command-and-control" anti-pollution rules, RECLAIM allotted to roughly 350 refiners, power plants and other large manufacturers a yearly distribution of credits for their emissions of smog-forming nitrogen and sulfur-oxides. Local companies that reduced their discharges, typically by installing cutting-edge equipment, could sell unused credits to firms that needed them. Brokers paired buyers and sellers. Last year there were \$74 million in RECLAIM trades. .... numerous clients accused EonXchange of swindling them out of credits or money owed them,..." - Chip Jacobs, freelance, 3-8-08

### Contingent Valuation

Innocent victims of pollution often try to claim compensation. If the damaged land does not normally pass through markets, or is public domain, the business of putting a value on it is

called "Contingent Valuation", done by polling: "what would you be willing to pay (WTP) to have clean water, beach, or air?". It sounds so reasonable, so fair - but is it?

Analysis has to presume who should own water, air, wildlife, and other natural values to begin with. "Entitlements" have a major effect on the relative bargaining power of different parties. For years, economists would ask, say, student canoers and kayakers what they would pay to keep a river wild. They got low valuations - poor students don't think of paying much, even hypothetically - and reported them as the value of recreation. Go ahead and dam that river, and damn fishermen, fish eaters, fish merchants, ornithologists, nature lovers, scenery lovers, tree huggers, and all such environmentalist wackos along with them.

It occurred to Allen Kneese and Orris Herfindahl (1965, rpt 1974, p. 287) from the old RFF - the good RFF - to invert the question and assume the boaters (along with all citizens) already own the wild river, or at least an easement to shoot the rapids. What would the power company have to pay them to take it away? What is their "Willingness to Accept" (WTA)? Surveys and polls began showing that WTA is much higher than WTP (Willingness to Pay). Many theorists fretted that "received theory" cannot explain this difference. Of course not: "received theory" was received damaged, it contains the Coase Theorem .

In its basic CERCLA2 legislation, 1980, the U.S. Congress even specified it wanted measurements of WTA, not WTP (Carson & Navarro, 1988, p. 830). Even then, pre-Reagan, the kept U.S.D.I. contrived to overrule Congress' intent by pleading technicalities. Reagan (1981-89), of course, reversed Congress' attitudes for good ("If you've seen one redwood tree, you've seen 'em all", and "I'd shut down the whole university to pay for one new dam", etc.).

The Coase Theorem, as used by Stigler et al., says that entitlements do not determine outcomes. Free markets will sort it all out and arrive at the same allocation regardless. The eighth daughter of a slave has the same consumer sovereignty as the eldest son of a Rockefeller. That is wrong. In fact, distribution of wealth often dominates allocation of resources. An owner often says "My home is not for sale. I will not sell at any price, don't call again." She can take that attitude when she holds the entitlement. Buyers never say "I will pay any price, call anytime." That is, WTA is much higher than WTP.

"Modern" micro-economics, dominated by Coasians, is a reincarnation of the 19th Century Manchester School whose members touted "free trade in land" as the solution to all resource problems. The trade they called "free" was to begin with entitlements inherited from centuries of conquest, corruption, stealing, slave-trading, monopoly pricing, influence at court, confiscation, negligence, covin and fraud. In this narrow view, exchange launders all. Everything is for sale; everyone has his price; all values are determined at the margin; etc. This was to distribute land fairly among the people. Yet today, after 150 years of free trade in land, the "London Dukes" (Bedford, de Walden, (cont'd on page 16 )

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Cadogan, and Portman) still own the heart of London, including Mayfair, where they collect rents from world bankers who collect interest from landowners who collect rents worldwide.

Mitchell and Carson use Coasian concepts in survey research: they poll people to put a value on environmental damages. One review faulted "the high rate of unusable responses" (Fischhoff, p.287). Why "unusable"? Mitchell and Carson throw out WTA answers when they exceed WTP answers by more than 5% (Mitchell and Carson, 1981, 1988, and 1989, pp. 32-34, 226). Sometimes over 50% of the responses are "invalid." They don't fit the Coase model; they must be, in Carson/Mitchell's phrases, "methodological artifacts," or "outliers," or "protest responses," or "aberrations." The case is something like that of NASA's Goddard Space Flight Center and why they missed detecting the ozone hole before Farman found it in 1985. "Their instruments had recorded the losses (of ozone), but the computer interpreting the results had been programmed to ignore readings that deviated so far from normal" (BW, 22 July 91, p.10).

The aborigines are one of their aberrations, and an object lesson. Some Indian tribes have Treaty Rights to fish. Their WTP for those rights is minimal, partly because their ATP (Ability To Pay) is minimal. On the other hand, they will not sell "at any price": their WTA is sky-high. They may be unreasonable, but that's the point: ownership lets you be as unreasonable as you please, just like rich white people, and call it "Liberty." We notice mainly when it is someone else, especially someone different. It is not just Coase's Theorem.

All status-quo theory is shaken to the bedrock, pilings and caissons by survey findings that  $WTA \gg WTP$ . Its criterion for acceptable policy changes is based on Pareto's and Edgeworth's notion that you mustn't deprive one rich landowner, even to help a thousand starving orphans, because you can't compare their subjective feelings. When, however, we acknowledge common birthrights to a clean environment, the shoe is on the other foot. Now you can't pollute anyone's air or water because the victims own it. They can be as unreasonable as any great landlord. This explains the busy-ness of theorists seeking to plug the leak. Politics and institutions are involved: Treaty Rights are the most valuable mode of holding property there can be. They enjoy legal supremacy as high as The Constitution itself (Article VI, Section 2), preempting contracts and ordinary legislation. All those, and other important institutional and sociological considerations are outside the "perfect-markets" ambit of Carson and Mitchell.

American Indians are an extreme case, but most of us have a streak of their psychology. Not many generations back we share the same kind of culture, a dependence on traditional lands we held in common, in implied trust for our descendants. These traditions are still part of the cultural subconscious, and affect current attitudes. They are disregarded in mechanistic micro modeling in the modern style (except perhaps as tautological "revealed preferences").

Economists who belittle the question of entitlements deserve the paranoia they evoke in environmentalists. Most of them want to give it, fully laundered, to whatever private party has a license now. (concluded on page 3)

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The proper answer is, "If entitlements don't matter, give them all to me: then let's talk." <<

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