Sleeping with the Enemy: Economists who Side with Polluters

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"*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 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 pollution issues, 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 their main theme 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). The von Mises Institute, American Enterprise Institute, CATO Institute, and a dozen more directed-thinking tanks that major rent-takers and polluters fund, got behind Peruvian Hernando de Soto to clean 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 must think this through on its own.

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, airlanes, 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 extincting all the soft-shelled crabs.

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 airlanes, air the gas, the radio spectrum, the geo-synchronous orbit, 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 – "I got here first, too bad for you". The second one says, in practice, you must go through the motions of "using" the resource, however factitiously, however wastefully – 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, laborintensively. Later historians showed, however, that capital ("front-money") was the key to winning private tenures from public domain, especially if the land was granted in return for building railways or canals, where big corporations dominated. Ever since it has been that, the ability to survive economically while losing money for years, not to mention corrupting politicians with "generous" contributions. 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 England, a more settled nation, spawned Cambridge Professor of Economics Arthur Cecil Pigou, successor of Alfred Marshall. Pigou put his odd-looking Huguenot 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, but such effluent 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 helm, Pigou's idea had a chance to flourish. Barry Commoner was a leader among those scientists who had observed nuclear energy enough to fear its dangers, a fear that overcame the deep social conservatism that neuters so many natural scientists. Commoner rose to lead the AAAS and published his brilliant conservationist manifesto, *The Closing Circle.* 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 their narrow realm of markets for "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 livelier *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 another 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[1]. 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, so that polluters should pay the public 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 1969 I moved to Resources for the Future, Inc. (RFF). RFF was entering a new phase, having seriously concluded that we face no problem of resource scarcity, its original remit. To stay alive, 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 like Kerry Smith and Talbott Page idolized him.

This approach was making progress with Charles Schultze of the neighboring Brookings Institution, a good weathervane of liberal thought[2], and with the LBJ administration, 1963-69. Vermont and some other States tried charging for water effluents.

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[1] E.g. “I am holding in my hand a magic capsule that will clean all the air at no cost: should I release it? Well, no, it would make more land habitable and thus lower the scarcity value of lands that are already pollution-free”.

[2] Schultze was also a leader in the American Economic Association, and in the LBJ and Carter Administrations

It was slow going, though, so after 1969 Nixon 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. They also invited lobbyists to urge The Environmental Protection Agency (EPA) and other regulators to specify their particular products as the required tail-end Charlies. Several new mansions in the horsey hunt country of Maryland and Virginia testify to the high fees paid to the greediest lobbyists for this kind of pollution control.

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, Anne Masters Sholtz, showed the possibilities of corrupt enrichment by 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 an 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[3].

It was too good to last. From about 1973, Ford phased out its unconditional support. RFF scholars had to become grantsmen. They complied, with all the complaisance that implies, except they are more subtle about it than more transparent and outspoken corporate outlets like The Heritage Foundation, the CATO Institute, the Manhattan Institute, the Fraser Institute, Mercator, Reason Fdtn., The American Enterprise Institute, The Hoover Institution, The Bradley Foundation, the Coors and Koch fortunes, and so on and on. Being subtle and opaque makes RFF all the more insidious, or so it seems to me.

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. An influential senior professor in Yale's School of Forestry, Albert C. Worrell, wrote threatening to attack me professionally if I persisted. Worrell, with Henry S. Vaux of Berkeley and William Duerr of

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[3] Raymond Moley, Doyen of the Lincoln Foundation and later Institute, made it painfully clear to me in private conferences that he strongly censured Ford's concessions to academic freedom. His attitude was manifest in his treatment of Kurnow, Keiper, Siegal and Clark in their Lincoln-funded 1961 book, *Theory and Measurement of Rent,* as documented in this writer's "Hidden Taxable Capacity of Land", 2009.

Syracuse were the triumvirate of leading taste dictators in forestry schools at the time, wired into state governments, the U.S.D.A., big forest owners and their banks – and academia, as I was to learn later at U.C. Riverside. Marion Clawson, my longtime patron and role model, told me my reputation was slipping. He published attacks on Federal forest managers, while sparing the private ones who were granting large funds to RFF. A smooth forest lobbyist invited me to cruise on his yacht (I declined).

In the changing temper of the 1970's, my old Missouri friend, Professor Pinkney C. Walker, whom Harry Gunnison Brown had handpicked to succeed him, came to town as a Nixon-appointed Federal Power Commissioner. Pinkney had neglected his academic career to get into the gas-line business. Pinkney hosted me with his new protégé, one Kenneth Lay, who later was to endow the Pinkney Walker Chair at Missouri. After Lay's various Enron scandals the Economics Department at U of Mo-Columbia refused to decline the tainted money– quite a comedown from the ideals I would associate with Harry Gunnison Brown. President Joseph Fisher of RFF 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, to his credit, 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 Coase and Stigler's tradable permits, but on the contrary, emphasis on more egalitarian distribution of benefits from pollution control. Allen Kneese never liked me much, nor I him, yet in retrospect he was the straightest shooter in the whole RFF crowd.

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[4]. A full-page obit in *Newsweek*, complete with portrait in color, paraphrasing the source 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 gloria mundi*.

RFF was left identified mostly with its faith in resource abundance and free markets, embodied in their monumental bible, *Resources in America’s Future* , edited by Francis Christy, Jr. and Neal Potter , both my personal friends. As their friend, however, I began finding some tendentious flaws in their methodology. I expressed these only at internal staff meetings, but thereupon Hans Landsberg, a senior staffer at RFF, told me in authoritarian tones to stifle it, those matters were settled. Landsberg was a veteran of the wartime OSS, whatever that may say about CIA contacts. RFF personnel were forever globe-trotting, advising 3rd-world governments, and I couldn't help wondering. Dominating foreign-sited resources was a key to resource optimism.

At this point I diverted my efforts to researching and writing a monograph refuting the then-standard academic notion that imperialism is national defense, and national defense is a "public good" from which all gain equally. I thought I was contributing an important point to orthodox

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[4] *Resources*, Issue 143, Spring 2001, p. 25, center column

economics, but instead I learned another lesson: to become a non-person, buck the myths that power lives by. I presented my findings proudly to friends and colleagues. I expected enthusiasm and alliance – it was a time of anti-war demonstrations - but got warnings from friends, and silence from others. I began to realize I was keeping the wrong company.

Soon, however, the first OPEC price revolution upended RFF's house orthodoxy, leaving it looking foolish. I remained in Coventry, however –one reaps no gratitude by forecasting how the errors of others will land them in the soup. Being correct and offering ways out only makes it worse.

I was born lucky, though. At this point the New Democratic Party (NDP) suddenly and unexpectedly swept a Provincial election in B.C. A friend there, Bob Williams, rose immediately to second in command after the Premier. As Minister of Lands and Forests he was in charge of collecting rents from all the "Crown Provincial" lands, some 90% of B.C. He offered me a rare opportunity to found a new institute , with a budget from the Provincial Government and some administrative control. We named it the B.C. Institute for Economic Policy Analysis.

The B.C. Institute, 1973-76

My Institute sponsored a series of scholarly conferences, to be published by the UBC Press. One was a major book on pollution control, edited by veteran Irving Fox and tyro James Stephenson. This was to be, in my dreams, a major guide to Pigovian effluent charges, tailored to B.C.. 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 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 it would, and then would charge us to breathe (rpt. in Roger Greeley, 1983).

My NDP sponsors, never very reliable, lost power in 1976. As I was leaving B.C. for Riverside, 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.

Good friend Gregg Erickson 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 –with good reason, as we have seen. 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.

Luckily for me, one Tom Kelly, a big-mouth red-baiting columnist in the Anchorage *Times*, attacked me and my report as "Marxist". Why lucky? *Cherchez la femme*! The Editor and Publisher of the *Times*, Robert Atwood, was my new wife's cousin, and he gave me space to answer. On top of that, the wife of conservative Senator Ted Stephens, nee Ann Cherington, was my Reed College classmate from 1948, when I was trying to explain free markets to the majority of hyped-up campus Marxists. So I had fun demolishing Kelly, and more people read this exchange than ever saw my official Report. This was also when Gov. Jay Hammond was selling the social dividend idea to voters: the stars were aligned my way that year!

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 environment 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 moreso 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, but people age and join the establishment. At Berkeley he had 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

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 Universty, 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 <u>process</u> 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 *Rijksbank* 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 "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).[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

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[5]Wahl is silent on the standing of those who have been getting water for excess lands in violation of Federal law. His clear implication, however, is in their favor on all points. This is no small matter. For example, Southern Pacific Land Co. owns 81,200 acres in the Westlands Water District alone (Villarejo and Redmond, p.46). Boswell has 24,000 acres. Both these firms have larger holdings elsewhere getting more subsidized water.

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 CERCLA[6] 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, Cadogan, and Portman) still own the heart of London, including Mayfair,

[6]Comprehensive Environmental Response, Compensation and Liability Act.

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 aborigenes 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>>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. The proper answer is, "If entitlements don't matter, give them all to me: then let's talk."[7]

[7]That cuts at the root of the Pareto concept that is used as a bulwark against challenges to concentrated private property. According to Pareto, nothing may be changed if anyone is injured, unless that person be compensated. Only win-win changes are allowed, beginning from the status quo. The influence of rent-takers has worked this idea into the center of economic theory.