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## **Social Costs Run High**

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So now it's more or less official. A team of research scientists, basing their findings on literally thousands of epidemiological studies from around the world, report that we can now say confidently that more people are killed by the pollution produced by automobiles than are killed in auto accidents. Lord knows how many more are killed by the pollution that comes from the production of automobiles and their components, but we can rest assured it's a good many.

And the reason in both cases is the same. Perfectly functioning markets know the price of everything but the social cost of nothing. By themselves, they create no incentive to limit the harmful effects of our economic activity on others.

Take a producer of tires, like Firestone. Along with deciding how many people it's prepared to kill quickly and directly with its product, Firestone must make a decision about how many it's prepared to kill more slowly, through the pollution generated by their production. In an unregulated market, which assigns that pollution no cost, the answer is "as many as is profitable." Bad health and other costs to the public shouldn't weigh at all in Firestone's decision, which should instead be driven simply by Firestone's interest in maximizing its profit from their production.

The fact that that is the market answer, and results in socially unacceptable levels of pollution, is the rationale for environmental regulation. Such regulation forces firms effectively to "internalize" some of the costs they would otherwise just dump on an unsuspecting public.

With the firm forced to bear more of these costs, of course, more of them will likely show up in the market price of the product, which may result in less of it being sold. But that's OK. Consumers are now making their buying decisions with better information on the "real" cost of tires, so in this way the market for them has actually been made more perfect - a sort of win-win for public safety and the use of economics in policy thinking.

Both claims would later be questioned by law professors puzzling over who was more efficiently blamed for such social costs as pollution - here, whether Firestone or the lungs of the public. They pointed out that any social cost, by definition, requires at least two to tango in its own "production." Make the heroic assumption that negotiation and deal-making among the dancers is itself costless, and one can imagine liability for that production assigned almost any which way. Such imaginings generated tenure for thousands, even as it did nothing for public health.

Back in reality, meanwhile, a large problem beckons. Even if (fairly or not) regulation of production tracks and assigns some of the social costs generated there, it does nothing about additional costs occurring throughout the product's life - in its distribution, consumption, and eventual disposal. A more complete and effective treatment of solid waste would look at each step in that life, and at its end return the used product to new production by its maker or allied parties. That's called an "extended production responsibility" (EPR) approach to garbage, and its chief departure from traditional policy is to identify and cabin waste flows before and after production, not just at it. Among its elements:

**Updated and more ambitious recycled content standards:** Ranging from newspapers and beer bottles to trash bags and phone books, most states, including Wisconsin, set mandatory levels of recycled materials for various products sold within their borders. Simply stated, manufacturers who sit atop the waste production stream should work alongside the end-users of their products to help create sustainable markets for their goods. But Wisconsin standards have often not kept pace with technology and new products, and typically exclude all sorts of potential products. They need to be updated and made more ambitious (as California has recently done with its standards). In our case, we could start by dramatically increasing recycling rates for products not currently being collected at the curb.

**Refundable deposits:** Nationwide, deposit systems boast very high recovery rates for items such as beverage containers, vehicle tires, pesticide containers, lead acid batteries, and even automobiles. Deposit systems provide a strong economic incentive to return easily recyclable products and packaging to retailers. Their success and efficiency is largely based on their use of existing distribution networks to funnel collected products back to manufacturers for disassembly and reintegration into new products.

**Advance disposal fees:** These are small fees used to fund recovery and recycling of products that are either difficult to recycle or pose some public health risk if improperly disposed. The most common example of ADFs in the United States is the nominal fee charged consumers when they purchase lead acid batteries for their car, truck or boat. These fees fund the more expensive recycling techniques needed to alleviate the health risks posed by heavy metals or other toxics. Wisconsin cleaned up dangerous mountains of used tires in the 1990s by using an ADF on new tires to fund tire recycling, but that law has since expired, and the tire mounds are beginning to grow back. We should renew the program. Other prime candidates for ADFs include televisions and VCRs, computers, major household appliances like refrigerators or washers and dryers, additional automobile components and basically any unrecyclable packaging.

**Product take-back:** A true EPR program closes the production loop with a requirement for the original manufacturer of a product to take back (either directly or through a third party) and reassume responsibility for that product at the end of its first use. Faced with a product's eventual return, manufacturers have obvious new incentives to design and fabricate the product in ways that maximize, at that return point, its residual

recoverable value. That means maximizing the use of materials that can be easily recovered for reuse, and, typically, greater modularization of product parts.

These, however, are only signposts to relevant policy innovation or renewal. At least as important is getting clear on the analytic shift behind them, which is to treat initial production as just one moment in our claims on the environment, and only one opportunity to take less or even give something good back. So when you think about solving our garbage problems, don't just think about more curbside recycling. Think closed loop material flows, and the production systems that can maintain them. That's the real environmental play in Wisconsin, and we have yet to make it.

Joel Rogers teaches at the University of Wisconsin-Madison and is founder and director of the Center on Wisconsin Strategy (COWS), which administers the Sustaining Wisconsin campaign. This is another in a weekly series of Capital Times columns he's writing on issues in the campaign. For more information, see [www.cows.org](http://www.cows.org) and [www.sustainingwisconsin.org](http://www.sustainingwisconsin.org).

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at the UW-Madison. On Jan. 29, COWS debuted "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. The themes expressed in this view of the state of the state will carry through the next 18 months as COWS uses Sustaining Wisconsin to put the Wisconsin Idea into action.

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