

Lindy Davies:

Henry George said in P&P: "It may be said generally that businesses that are in their nature monopolies are properly part of the functions of the state, and should be assumed by the state." Generally we assume that George is talking about such obvious monopolies as railroads and local utilities, and the proposition is not very controversial.

George goes on to say, of course, that land is the fundamental monopoly -- and the right to collect the monopoly payment of land rent is conferred by the state in its land tenure system. If we agree that a business that is entirely a natural monopoly should be run by the state, it follows that if part of a business is a natural monopoly, then that part must be controlled by the state, through taxation or regulation or other effective means.

Now, it seems to me that in health, safety and environmental standards (or to be precise, in the opportunity to disregard such standards with impunity and profit thereby) a form of natural monopoly exists. I would even argue that such a monopoly exists independently of a society's decision to explicitly mandate such standards. People have a right to breathable air, drinkable water, safe working conditions and for the products they buy not to injure or poison them. (Such rights simply derive from the right to life.) Another way of putting it, of course, is to say that polluters or unsafe producers create "negative externalities" -- costs that they force the general community to pay.

Negative externalities are inefficient as well as unjust. Along with the injustice of denying fundamental rights, there is a loss of productive power due to injury or decay they cause. A measure that served to "internalize" such costs would be a -- like George's single tax -- both equitable and efficient.

In the current political climate, though, there is a lot of confusion about these issues. Health, safety and environmental regulations are often characterized as intrusions on the market. The left calls them necessary intrusions, or else the market will create such abuses; the right claims that the market, freed from such ill-considered intrusions, will cleanse itself.

I would argue that both positions are incorrect because they are based on the fallacy that safety and environmental regulations are intrusions on an otherwise free market. In fact, unless such regulations are enforced, the market is not free, because it is conferring a monopoly advantage on the creators of those external costs.

Similarly, "property rights" or "wise use" advocates, denying any public claim on land rent whatever, assert that any loss of real estate value due to zoning or regulation is an intrusion on the market. Georgists realize, of course, that in fact there is no valid private claim on land rent; the ability to collect land rent is a natural monopoly.

The issue of health, safety and environmental regulations comes into sharp focus in the debates surrounding NAFTA, GATT and other international trade agreements. Critics argue that if

producers are able to evade the cost of regulations (not to mention minimum wage laws!) by locating overseas, domestic regulations are (to some degree at least) nullified. They would advocate tariffs on goods from the low-wage or poorly regulated countries in order to preserve the "internalization of costs" effected by the original regulation.

Furthermore, NAFTA's definition of the sorts of activities that constitute "barriers to trade" seems to be very broad. It appears to include virtually any attempt to improve the lot of workers or consumers. Such "regulatory burdens" are characterized as an unreasonable load placed on businesses. Because of the gigantic disparities in living standards between the industrialized West and the developing South, and the newfound ease of moving capital and information, there are huge opportunities to produce the same goods without the annoyance of those costly regulations.

Now, here are some questions:

Most Georgists have long followed the lead of Henry George in Protection or Free Trade and held that tariffs on imports are never beneficial under any circumstances. But if we recognize the human rights primacy of environmental, health and safety regulations, how are these rights to be secured, when "international trade" becomes a vehicle for evading them? So far, most of the agreements governing international trade seem to have been negotiated and implemented in the interests of transnational corporate interests who stand to profit from the trade. Do those trade agreements carry elements of "protection" (i.e., protection from the cost of necessary regulations)?

"True Free Trade," according to George, means that the workers' rights to land must be secured, so that all may benefit from the productive increase brought about by the free movement of goods. But suppose the wages of workers -- such as those in the Mexican maquiladoras -- are kept low largely because those workers are not allowed to cross a border. Are they not being denied access to land, thereby? (Or would their land rights be satisfied if they all had an equal right to the land in Mexico?) Does the fact that the earth belongs to all imply that immigration restrictions amount to a kind of land hoarding on the part of nations that want to preserve their higher living standards?

Mason Gaffney:

Be careful with the terms "Right" and "left" -- they are stereotypes that may not apply in many cases.

The question of whether environmental regulations are "intrusions" to the market is a good one for Fred Foldvary. In his terminology, **failure** to "intrude" at the right place in the right way is an "intervention."

NAFTA is the product of some bad hombres, indeed. It is phony free trade.

Fred Foldvary:

I would put it this way regarding the natural environment: Some types of environment, such as the air over the city, are fluid and therefore have to be treated as one entity. Other environmental aspects, such as litter, can be treated more locally and individually.

Environmental damage is an invasion into our domains (persons and property), which logically should require compensation with a universal standard of damage assessment.

The rights to breathable air, drinkable water, safe working conditions, etc. derive, more broadly, from the right to be free from coercive harm.

The moral problem goes beyond mere externality - if someone doesn't like the way I look, that's a negative externality too, to which I say, too bad. Pollution is a coercive invasion into one's domain, unlike my looks.

Mason Gaffney:

Fred, in this case, is taxing bad spillovers "intervening"; or is failure to tax them "intervening"?

Fred Foldvary:

Failure to "tax" or charge is the intervention. When government acts in a market-enhancing way, such as by charging polluters, it does not "intrude" (a synonym for "intervene"! ). A pollution charge is a compensation required by justice. Failure to collect this charge is the intrusion on the victims, the public. The failure to enact and enforce rules required by justice is an intervention, yes, because it then permits unjust private intervention. Legalized, uncompensated pollution is private intervention.

Most principles of economics textbooks, when discussing pollution, conclude that regulation is not as efficient as (when feasible) a charge directly on the pollutant, which then allows for efficient decisions at the margin, e.g. to reduce pollution rather than pay the charge, but do it in the way most efficient for that firm rather than by some standard government-mandated way.

So, if a pollution charge (fee, fine, tax, whatever) is feasible yet the government does not charge the polluter but instead regulates with some common standard that wastes resources, that is an intervention. Instead of "regulations" (politically loaded, vague), I would say "environmental safeguards and charges".

Ed Dodson:

A truism associated with economics is what we often hear referred to as the "law of unforeseen consequences." The way I would express this is that even under the best of circumstances

(when we know a great deal), we cannot always predict with certainty the outcome of combinations of public policy choices.

Where the environment is concerned, we face a similar -- and in my view even more serious -- dilemma in the pursuit of the exchange of goods, services and people around the globe. Adaption in biology moves at a very slow pace among animals of higher complexity. Some species have survived the onslaught of "new" predators or competitors or diseases -- but generally only after near-extinction. Everywhere around the globe right now native plants and animals are under attack by other plants and animals introduced without much thought or accidentally by our species. We trade and travel from place to place with a barest of safeguards against the mass migration of other species into environments where they play havoc with ecosystems balanced for survival.

Liberty requires the freedom of people to migrate. The earth is our birthright, equally. We do need to pay far greater attention to the protection of the earth's narrow margin of life support.

Mike Curtis:

Here's another way of looking at the immigration question. Before the boundary line between (let's say) the US and Mexico was formally drawn between two sovereign entities, the native inhabitants were free to use the land in the area. The border was not made by them, but by conquering powers -- yet now the descendants of those natives, who never chose to establish the border, are not allowed to cross it. What are the parameters of national sovereignty here?

Al Date:

I reject the primacy of all these regulations. You have no right to be safe! It is up to you to ensure your own safety, if that is your priority. Some people would rather climb rocks, or jump off bridges with bungi cords, or parachute out of airplanes. If you perceive that someone or something is causing you to be unsafe against your will, you have the civil courts. You have a right to redress, NOT a right to safety.

It is impossible to even imagine environmental regulations, for example, without an industrial economy. These are simply economic trade-offs which each society makes, usually moreso when it is already quite affluent, because the people value incremental improvements in their health/comfort more than incremental improvements to the local cost of production.

Lindy Davies:

Quite right. Which is why people in poorer countries become vulnerable as communication and transportation improvements make globalization easier. If the workers in those countries had viable alternatives -- if they had access to the unused land in their nations -- then their wages would be higher in the first

place and they wouldn't be so vulnerable.

Al Date:

I agree. But that is not the case--the world is quite unfair. So, it becomes a question of whether we proceed with the industrialization, or do we wait for a more perfect world to exist. The experience of Thailand and Korea and Chile seems to indicate that it is only a short time before a middle class is created, which does the lobbying for the cleaner environment, for less corrupt govt, and perhaps even for land-equity.

Simply put, when people are rich enough, they can afford these regulations. But very few regulations come without costs, and regulators must continually be reminded to perform a cost vs benefit analysis. In general, the first round of regulations are quite cost-effective, with each subsequent round less and less easy to justify, because the cost of cleaning up each increment gets geometrically costlier as you approach 100%. And, of course, the benefits get geometrically smaller.

Society has the power to impose regulations, however economically misguided they may be. The people may choose to live in a high-cost, relatively clean environment; but they will be at an economic disadvantage to lower-cost, dirtier environments. The natural outcome of this is that more dirty production is done in the low-cost environment, leaving only the high-margin clean production to get done in the high-cost environment.

Gradually, the priorities of the people in the dirty environment will change, as they get beyond mere sustenance, and become able to actually consider the quality of life, and they will demand improvements, by whatever means. This could come in the form of local infrastructure, such as sewers and treatment plants. It could force industries to either clean themselves up, or find a new place where dirty industry is accepted as a temporary evil to overcome even more brutish poverty.

Lindy Davies:

If what you say is true, then I see no reason why it should have taken this long for the process to come about. Trends in the areas of health, safety and environment have gone down, not up, in developing countries.

Al Date:

It happened in the USA, it happened in Europe. I have no faith in human nature, except that is fairly constant. Since human nature does not change rapidly, the pattern of development in each country follows very similar paths. What **has** changed is the speed with which a country can develop. Because all the tools are already there, and the roadmaps are drawn and pre-tested, development which used to take several generations can now be achieved in a matter of one generation. But it is up to the people in each developing country to watch out for their own

safety and environment -- and to do their own cost-benefit analysis.

(The exception to that rule would be in the case of a truly global eco-disaster, such as purported global-warming. How one performs a utilitarian calculus in that case is beyond me, as the act of living itself becomes a small-scale criminal act against the future occupants of the planet.)

Mike Curtis:

What about products that are produced from the Amazon rain forest, diminishing the world's supply of oxygen, or steel produced in Eastern Europe that pollutes the entire region? What about batteries produced in the Dominican Republic, where the workers are routinely exposed to mercury? No one is forced by the factory owners to work in those jobs, although they may have no place else to work. In Haiti, wages are probably less than the cost of keeping chattel slaves. Should we trade with the Haitian people's exploiters? Haitian wages would be no higher even if no other country traded with Haiti.

However, trade increases productivity and accounts for a great deal of the economic rent, with which the land lords finance armies and prevent revolutions. Without trade, the majority would eventually rule. Is it our moral responsibility to give up the benefits we get from trade in order to further the empowerment of the majority of people in other countries?