

## To what extent should we foul our nest?

Keith Rankin, 11 April 2014

Pollution is a big issue that comes in many forms. Our consciousness is heightened, this century, by the matter of anthropogenic climate change, meaning climate change caused by humankind fouling our unique home with greenhouse gases.

What concerns me about the climate change debate is that it is implicitly assumed, on both sides of that debate, that pollution is OK so long as we have no scientific proof that the costs of greenhouse-gas pollution outweigh its benefits.

If it looks foul and smells foul and feels foul, then it probably is foul. 'Foul' might not be a scientific concept, but we all know that it's bad; indeed too bad.

The 'green' movement seeks to emphasise both the extent of the cost of greenhouse-gas pollution, and to some extent question its benefits (which, to most of us, are summed up in the phrase 'economic growth'). The environmental sceptics argue that the cost of pollution is not so high, and that the benefits of growth – even growth that requires pollution – are very high.

An economist might say that we should pollute more if the marginal social benefit of pollution exceeds the marginal social cost. Better than average economists would include future (as well as present) costs and benefits in their analyses. And they would advocate mitigation of past pollution if the marginal benefits arising from that mitigation exceed the marginal costs of mitigation.

The limits of this approach arise essentially because the distribution of the benefits (in the present, and between generations) is quite different from the distribution of its costs. Thus the main beneficiaries of pollution have an incentive to downplay the costs, and to portray the growth benefits of pollution as accruing to everyone.

But foul is foul. There are no winners on a foul planet.

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Another approach is an absolute moral one. 'Thou shalt not foul thy nest!' Good in principle and easy to understand, because the word 'foul' implies a cost that cannot be offset by a benefit. Is the level of air pollution that planet earth faces today sufficient to be classed as 'foul'? If so, then clearly we have a moral obligation to act individually and collectively, regardless of what science tells us about global warming.

The moral approach I favour is a variation of the 'golden rule': do unto others as you would have them do to you. I'll call this the 'New Golden Rule', which states:

***It is good for you (as an individual, a business or a government) to pursue an action when, if others in the same situation as you also pursue that action, the collective outcome is beneficial, or at least not harmful.***

Its corollary is:

***It is bad for you to pursue an action when, if others in the same situation as you also pursue that action, the collective outcome is harmful. (This corollary is well known as 'the Race to the Bottom'.)***

Now let's consider the debate between Russel Norman and Jamie Whyte, leaders respectively of the Green Party and the Act Party, on TV One's Q+A programme on 30 March 2014.

Norman's position was that both New Zealand individuals and the New Zealand government should act to pollute less, essentially because such actions conform to the New Golden Rule. We would be setting a

correct example to the rest of the world, even if we were not convinced that others would follow our example. And we would be following those who are already acting in accordance with that principle.

Jamie Whyte took the opposite 'pissing in the wind' point of view. He suggested we would incur great individual cost for very little collective benefit, because it was almost certain that others would not follow our lead. In effect, Whyte's view is that the climatic Race to the Bottom was already and irreversibly underway, so we should be aiming to win that race (or at least to not lose it) rather than to forestall it.

Whyte's proposals for mitigation were limited to voluntary actions by concerned individuals. He was more concerned about adaption, but even then he was sceptical about whether governments had any useful role.

While it is clear that I prefer Norman's moral position, Whyte's position nevertheless requires an answer. What is the point of ineffective action?

Here we may return to our economic principles. First, when a race to the bottom is underway, the marginal cost (collective death) is always greater than the marginal benefit, no matter how great the marginal benefit might be.

Second, neoclassical economists in the 1920s, under the tutelage of Arthur Pigou, developed the concept of negative externalities. This means that, where another party imposes third-party costs (such as pollution), it is economically efficient to place a tax or tariff on the goods so produced or consumed.

Beneficial economic growth only occurs when incurred costs are paid by the buyers and sellers of the various different products in the marketplace. Capitalism may be about reducing costs, but it is not about transferring costs to unwitting third parties. Yet the capitalism that we see every day is a relationship between governments and businesses which allows big businesses and their customers to transfer substantial costs to the public, in the form of pollution and other environmental losses.

This means that taxes on parties who evade their costs actually enhance market capitalism. Even Jamie Whyte would agree that the core principle of classical liberalism – the liberalism of John Stuart Mill – is that it is OK to do what you like so long as you do not harm others.

So my position is that New Zealand and other countries should promote individual and governmental actions that are consistent with the New Golden Rule, and not actions that, if reinforced by the actions of others similarly situated, lead to a race to the bottom.

When other parties do not conform with the New Golden Rule, then by definition they are imposing costs on innocent third parties. So those who do conform with the New Golden Rule should place taxes or tariffs on the products of those who do not abide by this rule. New Zealand could place tariffs on all imported goods (and excise taxes on domestically produced goods) that are produced or consumed in ways that impose costs on the planet. Indeed we undermine the capitalist system if we do not impose such environmental taxes. Even the World Trade Organisation sanctions such tariffs.

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It's OK for us to modify our planetary nest – Earth – so long as our adverse modifications are balanced by beneficial ones. To **foul** our nest means, by definition of 'foul', that the adverse modifications are greater than any possible offsetting benefits. We have a moral 'duty of care' towards our planet, just as we have a duty of care towards our children.

This means we have a moral duty to adopt the golden rules. Fouling one's nest is a 'race to the bottom' type of behaviour. Further, we have a moral duty to maintain the integrity of our capitalist system to ensure that the costs associated with market activities are paid by the parties to those activities. Taxes (or other 'cost internalising' mechanisms) should be used to both compensate third party victims and to disincentivise fouling activities.

While Russel Norman's argument heads in this direction, it is fully consistent with the classical and neoclassical liberalism of John Stuart Mill, Alfred Marshall and Arthur Pigou. Jamie Whyte's 'if you can't beat it then join it' argument – the argument that it is better to participate in a race to the bottom than to merely be an innocent victim of it – may be laissez-faire, but it's also sending our grandchildren to hell in a handcart.

What would happen if New Zealand (and only New Zealand) was to adopt a protectionist policy in response to global externalities? We had protectionist policies in the 1950s and 1960s. New Zealand may have been a somewhat boring place in those years. But it was not a disastrous time and place to grow up.

Obviously such a protectionist policy would work better if others joined with New Zealand in imposing taxes and tariffs on all products whose production depends on pollution. Indeed such a protectionist policy would not be protectionist at all if everyone and every government respected the New Golden Rule. It would be free trade.

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