The Language of Loss:  
Or How to Paralyze Policy to Protect the Status Quo

The recent articles by Knutson et al. and Katherine Reichelderfer Smith (CHOICES First Quarter 1994) highlight the difficulties of economic science in the service of public policy. Smith offers insightful and compelling suggestions for the behavior of economists in policy analysis. However, the essential difficulty remains undiscussed. Specifically, there is still a need to understand the concept of the “impacts” of regulatory actions.

Cooking the books
The conceptual problem can be understood with a simple example. Imagine that water pollution is known to cause serious environmental harm—fish kills, contaminated beaches, and malodorous rivers. Now imagine that former polluters are made to treat their garbage so that contamination of the nation’s waterways ceases. We know that this treatment will be expensive. If it were not, polluters would have been treating such wastes rather than depositing them in the nearest river. The very fact of water pollution is evidence of a distinct cost advantage for one means of garbage disposal.

It is not uncommon to see studies demonstrating the “impacts” of these pollution regulations. We will be told that the inflationary impact of such regulations will add some percentage to the consumer price index, that “productivity” will suffer somewhat, and that the growth in GDP will fall by some amount. These “impacts” will be used by defenders of the status quo to show that regulations are bad for the economy. Indeed, the Reagan administration and its Competitiveness Council was committed to the elimination of regulations that were “bad for the economy.”

But of course the conceptual flaw here is obvious—regulations ought to be inflationary, they ought to dampen productivity, and they ought to slow economic growth. The word “ought” is not used here to suggest a mere personal opinion. Rather, the “ought” derives from economic theory. After all, polluting industries were able to save on costs by dumping garbage free of charge into adjacent rivers. No longer able to dispose of garbage at zero cost, it follows that the goods responsible for pollution ought to be more expensive once the cost of garbage disposal is incorporated into the costs of production. And it follows that the “productivity” of industry will be dampened a bit, and that economic “growth” will be slowed down. We should hope so; otherwise the regulations have not yet begun to bite.

Impacts schmimpacts
So what does one make of that popular phrase “regulatory impacts?” Do studies of regulatory impacts add coherence to the policy process? Not very often, but then coherence is not often sought. Better to confuse the issues. Perhaps Knutson and his colleagues suppose that by emphasizing the magnitude of “regulatory impacts,” agricultural interests will be able, once again, to fight off the regulators.

A more coherent policy analysis would start by recognizing some of the more obvious health effects of pesticides on foods. It would then develop several futures for agriculture under reduced levels of pesticides—including the complete prohibition of some uses. Under this approach “regulatory impacts” become not an excuse to do nothing, but rather an envelope within which one searches for least-cost technology paths given reduced pesticide uses. Only then can one begin to ask whether or not banning pesticides is “feasible.” In the absence of these technique trajectories, studies such as the one Knutson et al. have conducted are a waste of time and effort because they are not based on realistic adjustment paths. More serious perhaps, this line of work represents wasteful income transfers now recognized as an important part of rent-seeking activity. Indeed, given the pejorative connotation of “rent seeking” among those smitten by the idea of “free” markets, it is essential to understand that fighting off regulations is its own form of rent seeking.

Note that an emphasis on various technological futures would deflect attention away from the contrived absolutes of pesticides versus public health, and would focus attention instead on the means of regulatory policy. This seems to be what Smith has in mind when she insists that meaningful policy analysis requires a “broad spectrum of politically interesting scenarios.” These scenarios would concern regulatory alternatives (means), not regulatory ends. The Knutson et al. study speaks to the ends of regulation—ban pesticides at your peril. However, by defining the research task as one of determining “regulatory impacts,” economists in general—and Knutson et al. in particular—fail to acknowledge that such impacts are a mere artifact of current production practices.

Knutson et al. make repeated references to the “costs,” the “impacts,” and the “losses” that would emanate from a variety of restrictions on pesticides. We see here the language of loss—a regulatory idiom. Discussing pesticides in this manner frames the debate in a way that
distorts the choice problem. Some might even suggest that the framing is not accidental. An alternative frame, as suggested above, would seek to identify least-cost production alternatives with reduced pesticide use. Here, rather than trying to scare the public away from banning agricultural chemicals, the analyst would undertake to assess means for reducing the contamination of food. For those wishing to make the case that the “losses” are too high, this approach assures us that estimates of those “losses” are conceptually correct.

However, it is important to recognize that in a general equilibrium sense, estimates of “losses” bear no relevance to “efficiency” for the simple reason that once a sector has adjusted to the new institutional structure (with reduced pesticides), the economy is on a new “efficient” path. The essence of public policy, therefore, is not about some conceptual artifice called “efficiency.” Rather, public policy is about the incidence of impacts. Knutson et al. offer up their estimates, but their numbers are short on conceptual provenance.

Cost shifting and ill-gotten gains
But what are these efficient paths mentioned above? Pesticides represent a classic example of technical innovation; farmers can control pests at a lower cash cost than with other methods. Problems arise when the full social costs of pesticide use are not reflected in the price farmers pay for pesticides, and ultimately in the price of the product. Environmental policy is concerned with the reality that not all of the relevant social costs of pesticide use are reflected in the price that a farmer pays for a unit of the compound. When this fact is noted by those forced to bear the unwanted costs of pesticide use, new rules on pesticide use are the obvious result. Those new rules may encompass taxes to make chemicals more expensive to the user, thereby creating an incentive to reduce their use. Or, there may be a ban on certain compounds. Notice that a ban is analytically equivalent to a price so high that no one would use a particular pesticide. The policy problem is to get the price of chemicals “right” through getting the rules “right.” The rules determine the path.

A new constellation of rules regarding pesticide use in agriculture must be understood as rectifying the temporary circumstances under which some producers and consumers have managed to reap ill-gotten gains. Farmers will have to find some other technique for controlling pests. New pest-control strategies will be found, and agricultural production will certainly continue. If food prices are higher without pesticides, then that simply reflects the inability to continue to shift those costs elsewhere. After all, there are no correct prices in a market economy, there are only prices reflecting costs which must be accounted for.

The essential point here is that pronouncements about consumer and producer losses as a defense against pesticide regulations are conceptually incoherent. After all, these are “losses” measured against a status quo in which agricultural producers had been free to impose external costs on society at large. The former economic gains now characterized as “losses” have come at the expense of those forced to bear unwanted costs. The economic gains realized by producers and consumers since the introduction of the pesticides now being banned constitute “cost shifting” that is now being prevented by regulatory action. Consumers (and producers) of those products have enjoyed a temporary windfall at the expense of others. Now that the beneficiaries of this practice are forced to bear the full social costs of their production and consumption, the change somehow gets characterized as a “loss.” Language can be a very useful ally indeed.

But what is the basis for these estimates of loss? Have Knutson et al. attempted to assess an agricultural sector that now must pay all of the costs of production—including the environmental and health-related costs? Or have they simply taken existing practices and deleted pesticides from the mix? The evidence certainly suggests the latter.

This is technological fetishism. What, one might ask, is so sacred about the current way of producing agricultural commodities? Does anyone really imagine that producers—and the agricultural colleges that serve them—are going to sit by after pesticides have been banned?

The curiosity of “competitiveness”
Finally, we are told in the Knutson et al. study that pesticide regulations will reduce U.S. competitiveness in international markets. On this logic, one can increase “competitiveness” through a number of means not limited to the application of pesticides to food crops. For example, greater use of labor gangs from Haiti might have profound impacts on the wage bill of certain producers. Perhaps children might be enlisted into the agricultural labor force—they too have been known to work for less than adults, thereby lowering the production costs of many crops. There must be other ways to become more “competitive”—absolve farmers of property-tax liability, jigger the tax code to reduce the real cost of new machinery, etc. The opportunities for becoming more “competitive” are practically limitless. But of course this line of thought simply reinforces the obvious point that “costs” and “competitiveness” are totally arbitrary constructs. Indeed, one of the major purposes of the GATT is to oversee the processes whereby producing nations “cook the books” to remain “competitive.”

Whither policy analysis?
The nice thing about the Knutson et al. study is that it stakes out the extremes of “science” in the interest of advocacy. There is nothing new in that. Some may be shocked, but only those who still cling to the romantic idea that there is but one “truth” if only we work hard to find it. Economists ought to be the most easily convinced that progress in knowing comes from competition among alternative “truths.” That certainly takes a bit of the pressure off.

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