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## Rent seeking and environment

### I. The goal of the paper

In this paper I am trying to discover whether there is a rent seeking in environmental policies. In order to do so, I will first define the theoretical term of rent seeking, as has been done by leading economists in this area, and then use the cases from the US environmental policy practice.

### II. Rent seeking theory

#### McCormack-Tollison model of rent seeking

Robert Tollison, American economist, said: Rent seeking is the expenditure of scarce resources to capture an artificially created transfer. This is visible on the following graph. The interest groups which are willing to pay the asked price  $p^*$  in order to get the transfers are represented above the  $s$  line, while others are below  $s-f$  line.  $F$  is simply brokerage rate that politicians take.

Graphic 1: Market for Wealth Transfers

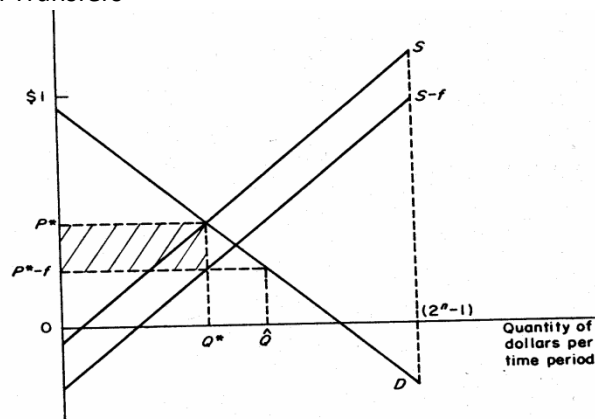


Figure 2-2. Market for Wealth Transfers

Source: Bruno Jeitziner, Public choice slides

### Persson's model of rent seeking

Often the citizens are the interest group that is left without the transfers. This is well depicted in the following model.

We can assume that the population in a country is segmented into great number of groups (J), with the size of each group  $N^J$ . Members are attracted to each group by the prospective benefit of public spending. Then preferences over policies are:

$w^J = U(c^J) + H(g)$ , with  $g$  as public spending, and  $c^J$  as private consumption:

$$c^J = y - \tau + f^J,$$

which we get when we add up income after tax, and group specific transfer. This group specific transfer, unlike  $g$ , lets us to (geographically) aim specific groups. Policy choices are represented with  $q$ , which is vector constrained to consist of following non-negative elements:

$$q = \{f^J, g, \tau, r\} \geq 0$$

Then we can see that only  $r$  does not appear directly in citizens' payoffs, and we need to define it:

$$r = N_\tau - g - \sum N^J f^J$$

where  $r$  is direct extraction of rents by politicians for their own (private) purpose. This is off course, reduced consumer's (citizen's) surplus, which goes to politicians or interest groups close to them.

### **Acemoglu's and Robinson's twist in the tale**

Some authors discovered that this story has the other side, as well. Sometimes, weaker interests groups, which can't pay the  $p^*$ , get rent transfers. For example, there was a redistribution of income towards poorer segments of society. The progressivity of the tax system increased substantially, and this led to downturn of Kuznets curve. Unfortunately, all this happened more than 100 years ago, in England and Wales, as a fear of revolution. Today's reality confirms rent seeking theory, as for example president's Obama budget cuts this year targeted the working poor, middle class and students, protecting the richer classes of society.

### **III. Rent seeking and environment**

Even with these theories, most people believe the things are different when it comes to environmental policies (and politicians), because of their noble cause. This assumption is not true. The USA spends 2 % of annual GDP on pollution control, more precisely 284 billion dollars. This is sum that attracts number of lobbyist, who try to affect the regulation. The regulation will then spread the cost to all, and benefit will be kept for some. However, final decision is still in the hands of legislators. As an example, Senator Gore attacked the administration's failure to define used motor oil as a hazardous waste under the Resource Conservation and Recovery Act (RCRA). If this happened, the Evergreen company would get additional business but at bigger cost of oil change for consumers. In this part of the paper, we will see how environmental policies are misused as a result of alliances between companies and environmental groups, regional, sectoral and international rent-seeking.

### **The unholy alliances**

The relationship between politicians and some companies may not be that shocking. But what worries, is the relationship between companies and some environmental organizations. From 1987 to 1994, the HTWC (trade association of companies that operate incinerators and other hazardous waste treatment facilities) joined with NRDC (Natural Resource Defense council), Isaac Walton League and other environmental organizations in

the series of lawsuits seeking to force EPA (Environmental Protection Agency) to impose more stringent regulations on used motor oil management. If used oil were regulated as hazardous waste, the costs of handling it would increase as would the insurance for potential environmental liability exposure. In turn, this would increase the cost of oil change and discourage voluntary collection programs. The primary effect would be to drive smaller firms out of the used oil-collection business. In addition to this, HTWC and the Environmental Technology Council, along with these environmental groups have sought to increase regulatory control and to classify as hazardous number of waste streams. The list goes from the burning of waste in cement kilns and Superfund cleanup standards, to the recycling of fluorescent bulbs. The goal of the HTWC was to increase the market for its members. The goal of environmental organizations was tighter regulation. Unfortunately, this means bigger prices for consumers.

Much more interesting case is when environmental organization is funded by a company. For instance, WMX Technologies, which is the world's largest waste-management company donates over \$700,000 annually to them. Another example is Surdna, owner of big timber estates, which donated \$5.2 million to Wilderness Society, National Audubon Society, Western Ancient Forests Campaign, Oregon Natural Resources Council, and Americans for the Ancient Forest. Surdna have sought to increase the value of their timber, donating the money to organizations which wanted to limit the harvest of timber on nearby rival federal estates. With less (rival) timber on the market, the value of their wood would rise.

### **Regional rent seeking**

Under the 1970 Clean Air Act, an emission standard of 1.2 pounds of sulfur dioxide (SO<sub>2</sub>) per million BTUs (British Thermal Units) was set by EPA for all coal plants. Utilities and other coal-burning facilities decided to switch from cheaper eastern coal that contained more sulfur to cleaner western coal in order to avoid installing costly scrubbers. But the Clean Air Act was revised in 1977. Scrubbers were required for all new facilities. Even more, additional provisions were successfully lobbied by eastern coal producers and the eastern-based United Mine Workers. "Measures to Prevent Economic Disruption or Unemployment" were to be used by state and federal officials in the case that coal is not purchased in the region

of the power plant, because this would mean the loss of local mine jobs. That purchase would be stopped immediately and the coal from the same region would be used.

PSD, or "Prevention of significant deterioration" policy, part of the 1977 Clean Air Act amendments, meant to protect "clean" areas which were classified based on their prescribed level of growth. Any new industrial facility in clean areas (mostly in the rural south) was required to install expensive scrubbers, unlike facilities in north of USA, which were usually not in these areas. Interestingly, when voting for PSD, congressmen were led rather by their regional than their party's interests, as shown in Pashagian analysis.

### **Sectoral rent seeking-Agriculture**

ADM (Archer Daniels Midland), agricultural conglomerate, has become very successful in rent seeking. They have been granted a number of subsidies, agricultural and otherwise. In addition to this, in 1990 Clean Air Act amendments were written that in cities with high carbon monoxide (CO) levels, gasoline must contain oxygenates. Ethanol is oxygenate, off course, manufactured by ADM. This ethanol lobby had strong connection with Midwestern agricultural interests. Moreover, clean-air standards on fuel volatility were loosened by Bush administration to enable the use of ethanol. Next administration (Clinton's), tried to pass the regulation which secured 30 % of the oxygenate market for reformulated gasoline to ethanol manufacturers. The latter proposal meant that Federal Highway Trust Fund would not receive as much as \$340 million per year in revenues from the federal gas tax, analysts predicted. Further more, EPA tried to convince public that ethanol would decrease greenhouse gas emissions. This was denied in a report from non-profit organization Resources for the Future, in which was stated that "unsubsidized, lower-cost, domestically produced [oxygenates that can] produce environmental benefits indistinguishable from those [of ethanol]." In 1995, the D.C. Circuit Court ruled against the Clinton's administration proposal: "The sole purpose of the RFG program is to reduce air pollution, which it does through specific performance standards for reducing VOCs and toxics emissions. [The] EPA admits that the [ethanol rule] will not give additional emission reductions for VOCs or toxics ... and has even conceded that the use of ethanol might possibly make air quality worse."

### **Rent seeking in international relations**

The use of CFCs in aerosol cans was forbidden in 1978, by Congress, because earlier in the seventies scientists discovered that CFCs caused, among other substances, the thinning of the earth's stratospheric ozone layer. The CFC industry did not agree at first, but in 1986 it would accept global limits on CFC use. DuPont scientists started to research for possible substitutes, but were unsuccessful, discovering only more expensive or impractical substances. However, DuPont was already in problem, because foreign manufacturers had sold CFCs cheaper, before the phase out. Under the global phase out, consumers had to buy more expensive DuPont substitutes. This cost American consumers more than 100 billion dollars. Also, the smaller cans of CFC-12, that cars use, were targeted to be restricted by The Mobile Air Conditioning Society, a trade association of members that repair automotive air conditioners in service shops. For the cans below 20 pounds, global phase out came even two years earlier than to big cans! People had no choice but to go to service shop. This shows that industries will seek protection from international competition, masking it as "environmental concerns".

The EEC forbade in 1989, the importation of U.S. beef produced with bovine growth hormones, although they had no proof that this beef caused health problems. The decision was obviously not guided by health concerns, but by fear of losing market.

There were also cases of discrimination of foreign import connected to Corporate Average Fuel Economy (CAFE) standards for automobiles. The goal was to decrease fuel consumption, but this could have been done better with auto efficiency tax. However, this didn't suit American car manufacturers, because European car manufacturers could pay this tax. However, Europeans could not so easily and in time fulfill these standards that were pretty usual to US manufacturers.

It is known that exceptions to free trade are possible through Article XX of the General Agreement on Tariffs and Trade (GATT), for measures "relating to the conservation of

exhaustible natural resources. Unfortunately, as we have seen in the examples, this Article has been used too often, and in wrong way.

#### **IV. Conclusion**

After all the examples that are presented in this paper, and having in mind the theory, I conclude that there is rent seeking in environmental policies, and politicians in this area are attracted to rents as any other politicians. However, they have the advantage of “better image”, because people see them as someone who is doing noble job of preserving the environment. This also means that costs of that rent-seeking politics are easier transferred to all people, while benefits, as we have seen, are shared amongst few people. Politicians and companies that influence them, also have the support of some environmental organizations that provide them with the “expert” information. This information should convince people in the rightfulness of these politics. Since rent-seeking is a known theoretical phenomenon, and it will never disappear completely, people can lower the amount of the rents by getting more informed about the politics and environment.

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