Externalized Costs: The Free Market's Free Lunch--A Local Case At The Port of Los Angeles

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Two weekends ago I wrote a couple of diaries about the free market as a failed policy and failed idea, as well as Naomi Klein's new book, *The Shock Doctrine*. My point was not simply to attack the notion of the free market, but to point out the necessity of doing so as part of a larger struggle for political realignment. Such a struggle requires more than discrediting old ideas, however. It requires replacing them--either with new ideas, with the rehabilitation of old ideas, or with some combination of the two.

At my day job, I write a lot about the Port of Los Angeles and its impact on the surrounding communities. It's an excellent example for what I'm talking about. The port facilitates the massive importation of consumer goods into the US, which not only involves significant exploitation of workers and the environment abroad, it also takes a terrible toll on the local communities surrounding the ports (Los Angeles and Long Beach) and the regions inland that are heavily impacted by port-related traffic. Indeed, more people in California die from the pollution generated by goods movement than die from homicides each year. These aren't industrial accidents I'm talking about. They are simply the "normal" cost of doing business. Except, of course, the businesses involved do *not* pay the costs of doing business. The public does.

The story on the jump is one I wrote for *Random Lengths News* that ended up getting supplanted by another. But it's well suited as an example of a phenomena that is all-pervasive in todays global economy, and it points to how we can start reframing that economy in terms that show what's really going on, and who's really paying the costs of someone else's fabulous wealth.

TraPac's False Green Front
"Green Growth" Rhetoric Ignores Externalized Costs

As the first of a series of backlogged terminal expansion projects, the TraPac expansion's **draft environmental impact report (DEIR)** is drawing heightened scrutiny as a test of just how successful the ports' **Clean Air Action Plan (CAAP)** is likely to be in cleaning up the dirtiest air in the nation. While the **Port of Los Angeles (POLA)** is trumpeting its new-found commitment to "green growth," critics have grown increasingly skeptical, dismissing the term as a hollow buzzword at best, and questioning the entire Villaraigosa Administraion.

"They aren't really looking for ways to grow the port green," said Tom Politeo, co-chair of the **Sierra Club Harbor Vision Task Force**. "They're looking for ways to grow the port with a green motif, a little green fringe here and a green highlight there."

To illuminate the gap between POLA's green rhetoric and the stark reality seen by community and environmental activists, one need only contrast the support for TraPac's DEIR from the Los Angeles Chamber of Commerce (LACC) with criticism from activists on the one hand, and activist support for another aspect of the CAAP on another.

In Politeo's view, piecemeal planning at the terminal level is fundamentally flawed. "There really is no regional analysis of how best to move cargo," he said. "They're applying 19th and mid-20th century technology to moving cargo in the 21st century that can't be moved that way."

"We need to be investing in a new kind of infrastructure," Politeo stressed, as well as a new kind of analysis.

But the LACC is still all about seeing everything from the individual company's point of view.

In a July 31 column titled **"The First Green Growth Test At Ports,"** LACC President and CEO, Gary Toebben, called the status quo "the worst possible outcome"-a clear indication that the old rhetoric of denial is gone for good-while that evening LACC representative Alexander Pugh praised the TraPac DEIR for "allow[ing] the operator to incorporate environmental features at an incremental cost instead of a crippling one."

"We're already paying crippling costs. It's not the industry that's paying crippling costs," shot back Jon Zerolnick, of the **Los Angeles Alliance for a New Economy (LAANE)** . Zerolnick is the principle author of a new report, **"The Road to Shared Prosperity: The Regional Economic Benefits of the San Pedro Bay Ports' Clean Trucks Program."**

Community, labor and environmental groups are strongly supportive of the proposed **Clean Trucks Program (CTP) [PDF]**, which closely reflects proposals that originally came from the community/labor/environmental alliance, the **Coalition For Clean and Safe Ports**. LAANE's report explains why, while demonstrating the kind of inclusive perspective that incorporates a genuine, quantified environmental justice standard, as well as labor and community protections.

That perspective, introduced by **British economist Arthur Cecil Pigou** in his 1912 book, *Wealth and Welfare*, revolves around identifying "externalized costs" (like pollution, discrimination, corporate crime, etc.) that businesses force upon society at large or certain subgroups, and devising ways to internalize them, so that goods and services produced reflect all the costs involved in producing and delivering them.

Using this approach, LAANE calculated that the CTP could produce nearly $10 billion in ten years in reduced costs and increased benefits to truckers and their families, local communities and taxpayers at the federal, state and local levels. Significantly, the costs to industry would be markedly lower (preventing health impacts is cheaper than remedying them), and would ultimately be paid by consumers at barely noticeable rates. While any one firm could be crushed by such costs if its competitors escaped them, Zerolnick explained, they could easily be borne if everyone internalized costs through the same mechanisms, phased in over several years as the CTP calls for.

While widely accepted in the abstract, other theoretical perspectives have long combined with special interest political power to sideline Pigou's impact. Yet, since the early 1990s, the sheer magnitude in externalized costs, combined with stalled progress in dealing with environmental damage has contributed to renewed interest in Pigou's approach. His approach is now routinely used by regulatory agencies, such as the **California Air Resources Board (CARB)** and the **South Coast Air Quality Management District (AQMD)** for their high-level analysis, though it has yet to trickle down to the level of individual EIRs.

In 1995, Ralph Estes, an emeritus professor of business at American University in Washington, DC, wrote a paper, "The Public Cost Of Private Corporations," which conservatively estimated total external costs in the U.S. economy at $3.051 trillion, enough to turn a reported $714 billion net profit into a $2.337 trillion net loss. He estimated costs of $329.7 billion for stationary-source air pollution and $10.7 billion for mobile-source air pollution.

The later, at least, seems extremely low in light of current knowledge. Last year, [**Proposed Emission Reduction Plan for Ports and Goods Movement (March 22, 2006) [PDF]**] CARB estimated total externalized costs for goods movement accounting at $19 billion, half of which is in AQMD's jurisdiction. The port-related share of that-anywhere from $3.5 to $5 billion or more-clearly dwarfs port revenues, much less expenditures to reduce pollution.

As regulators have increasingly come to rely on Pigou's perspective, industry-which profits handsomely from externalizing costs-has fiercely resisted, tugging hard on the ports as well.

In his 2004 report for the Public Policy Institute of California, **"California's Global Gateways [PDF],"** economist Jon Haveman raised the issue of multiple unpaid, externalized costs:

"Although California's entrepôt status also benefits the gateway regions through increased employment, business profits, and state and local tax revenue, congestion, pollution, and wear and tear on California's highways generated by shippers are costs for which the taxpayers and citizens of California are not compensated. In effect, California is subsidizing economic activity in other states.... promoting California's entrepôt status is not obviously beneficial, but is part of a large and complex policy calculus."

Haveman's analysis quickly caught the attention of the **Port Community Advisory Committee**, which has since tried in vain to get POLA to follow up and fund studies to clarify that complex calculus-to no avail, as the deaths continue.

"As policy takes years and years to develope, time marches on and all these costs continue to be borne by those in the the communities," Haveman told Random Lengths. "Without considering the externalities, appropriate decisions are unlikely to be made regarding infrastructure development."

It's not just a matter of local air quality, either. "What we're doing is subsidizing the movement of goods great distances, which dramatically increases the carbon footprint to fill consumers' needs." We could, in effect, be hardwiring ourselves to needlessly generate far more greenhouse gases than necessary for decades into the future.

Further expanding the "inland port" infrastructure in the Inland Empire-a necessary consequence of TraPac expansion-without analyzing it in terms of externalized costs may only make things worse in the long run, critics have argued. It's an example of off-port land-use impacts that are ignored in TraPac's EIR.

"The costs are real whether we want to acknowledge them or not." Zerolnick said. "We either pay for them as community members and tax payers. Or we pay for them in a nickel on a DVD player, or a quarter on a flat-screen TV."

"Once you get shippers to pay their way," Haveman added, "more sensible carbon decisions and more sensible employment decisions will result."

Finally, Politeo concluded, "As long as we're mitigating 18th century technology, we're not going to get anywhere."

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