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Wake County Sustainability Task Force Report

An Alternate Opinion

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This Regional Brief critiques the process used by the Wake County Sustainability Task Force and its final report. The author was a member of the task force.

The entire task force report and this critique can be found online at *www.ces.ncsu.edu/depts/agecon/WECO/wake/index.htm*.

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The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.

— Friedrich A. Hayek

Background

- In late 2010, the Wake County Commissioners appointed a 55-member citizens' task force to revise the county's Environmental Stewardship Agenda by incorporating "strategies for sustainability and 'green' initiatives."
- The Wake County Environmental Sustainability Task Force met monthly for 18 months from January 2010 to June 2011. The task force focused on three areas: water resources conservation and management, solid waste reduction and management, and energy conservation and management.[1]
- The county hired facilitators from the NC State University's Watershed Education for Communities and Officials program to oversee the process and help task force members work toward consensus decisions.[2]
- This critique is limited to a discussion of the final task force recommendations. They were the only part of the report that was discussed fully and voted on by task force members.
- Other than some of the data presented in the background sections of the task force report (September 23, 2011), task force members neither discussed nor approved the introductory section nor the background sections for water, energy, and solid waste. What is worse, the "performance measures" that follow each list of recommendations were also not presented to nor discussed by task force members.
- It is therefore dishonest to state on the cover of this report that it was "Prepared by Wake County Sustainability Task Force." ***All of the sections not considered by nor voted on by the task force members at their regularly scheduled meetings must be removed from the report or attached as an appendix and clearly marked as input from the staff.*** To do otherwise is to perpetrate a dishonest representation of the 18 months' worth of task force work, mislead the Wake County commissioners, and mislead the public as well.

I. The Task Force Process: Flawed from the Start

Task force members received a "Scope and Process" document that outlined the objectives, timeline, and meeting process. The process was a "consensus-based decision making process rather than majority voting process." In other words, facilitators assisted members in reaching consensus, and when that could not be accomplished, disagreements were to be noted in the task force reports.

While this consensus process is quite common at all levels of government, it is not without problems. Typically, proponents of a recommendation are not asked to provide supporting scientific or economic data to support the viability of their recommendation. The recommendation is assumed to be the consensus of the task force unless a member objects. The member who objects is then asked to explain the reasons for his objection. This process is effective at reaching consensus, but it is not an effective way to evaluate effectiveness or efficiency of recommendations. It often leads to the well-documented phenomenon of "groupthink."[3]

The process used by the facilitators inevitably produces groupthink, described as

> the mode of thinking that happens when the desire for harmony in a decision-making group overrides a realistic appraisal of alternatives. Group members try to minimize conflict and reach a consensus decision without critical evaluation of alternative ideas or viewpoints.[4]

Task force membership

Task force members were not selected on the basis of scientific or economic expertise. On the contrary, the members were selected because they represented special-interest groups or governmental interests that might be affected by the recommendations. In fact, no resource economists were on the task force nor were any resource economists on hand to act as support staff. Additionally, the task force process did not include a procedure to evaluate recommendations for their scientific or economic validity or effectiveness.[5]

Those seem to be fundamental flaws in the process since the task force was charged with making recommendations on three issues concerning natural resources: water and energy resources and solid waste disposal. Thus task force members were without a mechanism to check their recommendations for economic or scientific validity, unintended consequences, or costs and benefits of various options.[6]

Most speakers represented special-interest groups or governmental interests

The task force did hear from a series of speakers.[7] Unfortunately, these speakers represented either private interests or governmental interests. For example, the solid waste and recycling information presented on March 18, 2010, did not include any total cost data so that members could determine the landfill vs. recycling costs.[8]

It was only after the urging of several members of the task force that an energy panel discussion with divergent views was presented at the November 2010 meeting, nearly a year into the process. Furthermore, an alternative economic point of view delivered by a qualified resource economist[9] was not presented to the members until more than a year into the process, and his presentation is not listed on the task force website.

Definitions matter

As a further illustration of the lack of concern for economic or scientific rigor, the task force members did not have a common definition of sustainability. In other words, each member was free to apply his or her own sustainability definition to the issues being dis-

cussed. This lack of a common definition led to many unproductive discussions. That problem was rectified late in the process when the task force members were asked to arrive at a consensus on a definition of sustainability.

After much discussion, the task force adopted this definition:

> Sustainability is utilizing practices that protect the economic, environmental, and social qualities of life for current and future generations.

This definition relies on the most common definition used in the field, first put forth in 1987 in the UN report *Our Common Future*:

> Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.[10]

Unfortunately, neither of those definitions conforms to the basic principles of resource economics. Both imply using governmental power to force people to save resources now because some "experts" think they might be useful for future generations. Such a proposition is economic nonsense and violates the basic principles of a free society and a free economy. Even the most knowledgeable scientific experts in the 1930s could not have comprehended then that, in a few decades, copper telephone wires would have become less necessary because fiber optics (using ordinary sand) and satellites would carry much of our telecommunications. So had there been a government-enforced sustainability policy in the 1930s that required people to save copper for future generations, it would have wasted important resources and stifled technological innovation.

In the same way, it is an absurdity to base sustainability policy on a definition that does not understand fundamental facts of resource economics.

As economist Dr. Roy Cordato concludes:

> The reality is that there is *no empirical or historical evidence* that any generation has been less prosperous than previous generations as a result of overuse of resources by previous generations. *In fact, the evidence is exactly the opposite.* It is the resource usage of previous generations, and the capital formation that it generated, that gives generations to follow opportunities for prosperity that they would not have otherwise had.[11] (Emphasis added.)

Why was this biased process used?

If the process was not geared toward developing economically or scientifically tested and sound policy recommendations, why was the consensus process used, and what was it designed to produce?

The reason this process was used, and why it is popular at all levels of government, is that it normally creates a *politically acceptable outcome*. This process did not rely on environmental science, natural resource economics, or scientific or economic data related to the issues of water, energy, or solid waste. With a few rare exceptions explained in detail below, little or no attempt was made by facilitators to bring in independent sources of scientific or economic information. No scientists or economists with expertise in the areas were selected to be task force members.

The first indication of the political goal of the task force process was the selection of the task force members.[12] A wide variety of political interest groups were represented. Cities, environmental groups, agencies, etc. all represent political interests in Wake County. These are often referred to as "stakeholders." As I argue in "The Most Important Stakeholders Often Have No Say,"[13] it is impossible to get all of the people or groups represented, so the policy recommendations produced by the typical "stakeholder" process often pass costs on to unrepresented individuals and groups who have no say in the process. For example, recommendations' changes in the building code and the land use "incentives" offered to home builders would likely drive up the cost of housing for future Wake County residents who cannot be represented directly because no one knows who they are.

II. Principles of Resource Economics

The issues addressed by the task force—water, energy and solid waste—are fundamentally related to resource economics. This section of the report shows that by relying on interest-group representatives instead of qualified resource economists, the task force produced a hodgepodge of conflicting, confusing, and counterproductive recommendations.

The following discussion only hints at the potential economic problems contained in the recommendations developed by the task force. It is by no means a complete list of problems. County commissioners' decisions to implement any of the task force's recommendations must be based on evaluations by qualified economists.

Economics is about scarcity, and economists evaluate various institutional arrangements to determine which arrangements use resources most efficiently. Resources include not only natural resources such as the ones reviewed by the task force—water, energy and landfill space—but labor that goes into any production process and capital that is necessary for buildings and equipment. (I will summarize these three resources by using the terms land, labor, and capital.) Simply put, institutionalized market economies use these three resources more efficiently than government ownership of production. The Soviet Union's economic system failed because the communist government owned and allocated resources based on what the Communist Party leadership wanted, not what consumers wanted. This system of government ownership produced not only a declining standard of living, but also an actual decline in the life expectancy of its citizens.

Principle #1: Efficiency

To the non-economist, efficiency is usually defined as the most output for the least input—"more bang for the buck." But economists use a broader definition: "The measure of how well an allocation system satisfies people's wants and needs."[14] In other words, competitive free markets are considered the most efficient allocation system because they not only produce more goods at lower costs, *but the goods produced are what people want*. The Soviet Union produced lots of tanks, guns, and missiles because that is what the Communist Party leaders wanted. Even though the people wanted toasters, cars, and televisions, few were produced because political decision makers, not consumers, controlled the country's resources—land, labor, and capital.

Therefore, inherent in some of the task force's recommendations are two fundamental economic mistakes. First, many of the recommendations claim to focus on efficiency, but that focus is only on one resource; e.g., increasing energy efficiency. These recommendations ignore what could be wasteful expenditures of other resources—such as labor and capital—in order to achieve increased energy efficiency. When that happens, the overall result is actually inefficient.

The second mistake is that many of the recommendations are based on decisions by political and bureaucratic elites, not consumers. Providing a taxpayer subsidy for consumers to buy an energy-efficient refrigerator is a clear sign that the consumer, left to his own decision, might opt for another item. The elite decide they must prevent the consumer from making this purchasing "mistake" by offering him a taxpayer subsidy.

The task force's report defines "energy efficiency" in the glossary attached to the Energy Recommendations: "Energy efficiency involves technology that produces the same end product while using less energy." This definition takes only one of the major

resources into account. It ignores labor and capital. The example provided in the glossary is an air conditioner that produces the same amount of cool air while using less energy.[15] But it is foolish to consider only the energy side of the equation. Consider: would any rational person buy a 9,000-BTU window air conditioner costing $30,000 even if it used less energy? The high price—which is a measure of the value of *all the resources* that go into producing an item—indicates that lots of other valuable resources were used to make this "energy efficient" air conditioner.

To make matters worse, government subsidies sometimes encourage people to buy "energy efficient" items that waste not only productive resources, but taxes, which are taken out of the private sector where they would have been used in more productive ways (see section on government subsidies below).

The task force's Energy Strategies #1 and #6 recommend building buildings based on energy-efficient designs. Building or retrofitting buildings to save energy is a laudable goal, but if the new design requires higher cost materials and more construction labor, the new building may be energy efficient, but the total use of resources may make it inefficient and wasteful of resources. Thus it would not be sustainable.

Similar problems exist in the solid waste recommendations. Throughout the entire discussion of solid waste, the economic literature on landfill vs. recycling was ignored. Instead, the task force established Waste Strategy #1, which is intended to extend the life of the South Wake Landfill; i.e., find other ways to dispose of trash so that the landfill would fill up later rather than sooner. This goal assumes, without any economic evidence, that alternative waste disposal costs—for example, recycling—are less than continuing to use the landfill. Thus without any economic data, the recommendations call for diversion of high volume materials, diverting food waste, converting waste cooking oil to biofuel, and establish construction and demolition waste. Actually, the task force was presented with evidence that some types of recycling are not sustainable because they waste resources.[16]

While the task force recommendations call for waste characterizations studies, pilot studies, etc., they do not require true economic analysis of the costs of those programs compared with the costs of using the landfill to dispose of solid wastes.

In fact, extending the life of the landfill has nothing to do with the sustainable use of resources. Extending the life of the landfill is a *political goal* created by a mix of environmental special-interest groups and Not-In-My-Back-Yard (NIMBY) political pressure on elected officials.

The NIMBY problem stems from the fact that landfills impose uncompensated costs (noise, increased road traffic, smells, lower land values, etc.) on nearby landowners. If those costs were compensated by lower property taxes, for example, much of the NIMBY factor would dissipate.

To have truly sustainable solid waste disposal, commissioners should focus on using environmentally safe methods at the lowest possible cost.

Principle #2: The Price Mechanism

Generally speaking, in market economies, scarce resources—land, labor, and capital—are efficiently allocated using the price mechanism. Economists define the price mechanism as the system used by buyers and sellers to voluntarily determine a mutually agreeable price where both buyer and seller expect to gain from the voluntary exchange.

Simply put, if the supply of a resource becomes scarcer, the corresponding price increase signals entrepreneurs to produce more supply and consumers to conserve or look for substitutes.

The sustainability task force was charged with developing recommendations for two resources, energy and water.

Concerning water, government water pricing systems are set by a political dynamic, not the price mechanism. Historically, elected

officials who wanted to please voters have set water prices lower than would be expected if a market price mechanism were operating. On the other hand, current pressures from environmental interest groups have caused elected officials to *price water too high*. Fixed-tiered-rate systems indiscriminately punish consumers for using water. Cary's top rate is $8.10 and Greensboro's is $6.80 for about 750 gallons of water.[17] Barring a wholesale transference of a government water system to the private sector, it is impossible for a government water system to use a market-driven price mechanism.

The task force's water recommendations try to solve the dilemma presented by government bodies that determined water prices without a market price mechanism. Water Strategy #1 calls for a study of the "full benefit-cost analysis of water resource facilities and programs" leading to the development of a "dynamic water resource pricing policies." This recommendation is a step in the right direction, assuming (1) that qualified economists conduct the study, not ideological consultants or special-interest research organizations, and (2) that "dynamic pricing" means price will change based on water supply and demand.

Unfortunately, Water Strategy #1 undermines the core principle of a dynamic pricing system by specifying counterproductive goals. It also states that "pricing policies that … promote efficient use of water resource, and equitably allocate costs to individuals based upon the benefits received from, and the impacts placed on, water resource facilities and programs."

Instead of allowing consumers to use water as they choose within a price based on supply and demand, that section invites special-interest pressure on elected officials to dictate how consumers use their water. For example, it encourages such policies as outdoor water restrictions, mandatory low-flow toilets and showerheads, etc.

A dynamic water pricing system should only be concerned with adjusting the price based on the supply of and demand for water. For example, once the relative costs of the system are determined, a base price could be set. Then the price should change based on changes in supply and demand, not the political preferences of the policymakers. If total demand increases due to population growth, or if a drought condition decreases supply, then the price should increase. On the other hand, if supply increases due several years of wet weather, price should decrease. The fact that Wake County's population will increase must motivate system administrators to find more supply, not engage in so-called demand-side management of this resource.[18]

Demand-side management policies such as mandatory conservation with fines for enforcement are the kind of "nanny state" policies that are unproductive, discriminatory, and inconsistent with the values of a free society. During the 2007 drought, Raleigh and other Wake County cities passed restrictions on personal lawn watering and car washing and on commercial ventures such as car washes and pressure-washing businesses. These regulations and the fines to enforce them drove some places out of business and punished someone who wanted a green lawn, but at the same time it did nothing to people whose water use was less visible; e.g., people who like long showers or who water numerous houseplants.

While a government pricing system based on supply and demand would be less efficient than a true free-market pricing system, it would still cause people to conserve voluntarily in ways that suit them best. It would still be better than managing consumption through arbitrary, capricious, one-size-fits-all nanny-state regulations (see more in the Regulations section below).

Principle #3: Regulations

Governments use regulations to influence individual behavior when actions by one party harms others. Historically, these have generally concerned specific and limited health and safety regulations. For example, speed limits, traffic lights, and so forth regulate driving

behavior, making our highways safer for everyone. More recently, special-interest groups have lobbied to regulate areas unrelated to specific health or safety issues, giving rise to the nanny state. New York City's banning trans-fat from restaurants and San Francisco's banning of fast-food happy meals for kids are just two examples of special interests' lobbying interests succeeding in forcing conformity to their ideologically preferred behaviors.

The task force's water and energy recommendations call for the review of building codes. Energy Strategy #1 states that the county should "evaluate existing building codes, policies and regulations to identify limitations to, and opportunities for, the energy efficient design of building and outdoor lighting." Water Strategy #2 contains similar language. While it is important to examine building codes in order to eliminate unnecessary or ineffective restrictions on individual actions, it appears that some task force members want to add regulations that would force people to conform to "environmentally correct" ideology. For example, Energy Strategy #1 calls for changing building codes to encourage "energy efficient design of buildings." Given the discussion of the term "energy efficient" above, this recommendation could cause the county to pay double or triple the cost of constructing buildings in order to save a small amount on energy. Economists would call that a highly inefficient—or in task force parlance, an unsustainable—use of total resources to save on just one resource: energy.

The water recommendations contain similar language. Examining building codes to find opportunities for water efficiency and water conservation could lead to requiring low-flow showerheads (which were famously ridiculed in the "Seinfeld" TV episode in which Kramer and Newman sought high-flow showerheads from a black market dealer in a back alley). The county should not respond to pressure from special-interest groups to change building codes based on the latest "environmentally correct" dogma. Instead, county officials should work to use a pricing structure that allows individuals and families to determine how they will use water.

Principle #4: Incentives

Economists use the term "market incentives" to describe the response of individuals and firms to changes in the price mechanism or, more generally, changes in costs and benefits. For example, when a freeze hits Florida and the price of orange juice increases, apple juice firms have a market incentive to produce more apple juice and consumers have a market incentive to find a lower price substitute for higher priced orange juice. All of this activity takes place in the context of private property rights and voluntary exchanges. Market incentives promote efficient use of scarce resources and thereby lead to the sustainable use of resources.

Conversely, government officials are largely unaware of the role market incentives play in the promoting the efficient use of scarce resources. Instead, they use government subsidies to manipulate individual choices in predetermined ways. For example, Energy Strategy #7 states, "evaluate potential incentives to promote" energy-efficient appliances and the construction, operation, and retrofit of energy-efficient buildings. In this case, using a taxpayer subsidy to get individuals to do what government officials think is "best" creates an incentive. While a market incentive encourages efficient use of resources, a government-subsidized political incentive does the opposite.

Taxpayer subsidies transfer money from the private sector to the public sector. When public-sector decision makers use that money for incentives to appease special-interest groups—in this case, a program that subsidizes "energy efficient" appliances—it results in inefficient use of all of the resources used in production.

For example, the high price of an energy-efficient appliance such as a washing machine or refrigerator indicates that more resources—land, labor and capital—are required in the production process. The government subsidy

lowers the price to the consumer, but it does not change the fact that more resources were used in its production. Those resources could have been used in the production of other products desired by consumers. Thus the overall impact of the subsidy is to misdirect resources in wasteful, inefficient ways. That means it is an unsustainable use of resources.

A second distortion of the term "incentives" in the task force report involves recommended changes in land use regulations. Solid Waste Strategy #1 states that developers should be offered "incentives to provide recycling facilities," which include "parking counts, housing density credits, etc." Offering quid pro quo deals to homebuilders and other developers is an increasingly popular way for special-interest groups to get homebuilders and, by extension, home buyers to pay for their pet projects without a direct cost to taxpayers.

Here is the way the "incentive" bargaining system works: Planners with support from special-interest groups want developers to provide certain public amenities, in this case recycling facilities, at no direct cost to the taxpayers. They write planning regulations with land use standards that are unreasonably low. In this case, they set parking counts (number of minimum parking spaces for a development) and housing density (number of houses per acre) artificially low.

Planners know that in order for the development to be an economic success, developers must increase those standards. Planners are more than willing to increase those standards if the developer provides the "free" recycling facility.

The fact that, for the most part, the additional cost for the "free" amenity is passed on to the buyers is no concern for the planners nor the special-interest group pressuring for the amenity. This incentive system, which resembles an extortion scheme, is specifically explained and recommended in a consultant report produced for the City of Raleigh.[19]

III. The One and Only Recommendation

It is no accident that the task force did not calculate the costs of its recommendations or compare them to other, perhaps less costly, alternatives. The majority of the task force members were not concerned with costs, especially when other people would be made to pay them.

This brief analysis only hints at the systemic problems in the task force's final report. To discuss all of its problems in detail would require a much heftier document. As the commissioners consider the Sustainability Task Force recommendations, it is imperative that they commission qualified resource economists, not sustainability consultants nor sustainability university faculty, to conduct economic analyses of the recommendations before any of them are implemented. It is only then that they will have the information they need to decide if a recommendation would produce economic and environmental benefits for the citizens of Wake County.

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End Notes

1. Wake County Environmental Sustainability Task Force (WCESTF), "Scope and Process," *www.ces.ncsu.edu/depts/agecon/WECO/wake/documents/taskforce_scope-process.pdf*.

2. WCESTF, "Staff Team," *www.ces.ncsu.edu/depts/agecon/WECO/wake/documents/staff_team.pdf*.

3. Irving Janis, *Victims of Groupthink*, Boston: Houghton Mifflin, 1972.

4. Here is Janis' definition of groupthink from his 1971 *Psychology Today* article, "Groupthink": "The more amiability and esprit de corps there is among the members of a policy-making in-group, the greater the danger that independent critical thinking will be replaced by groupthink, which is likely to result in irrational and dehumanizing actions against out-groups." Janis analyzed President John F. Kennedy's decision to invade Cuba at the Bay of Pigs to develop his theory. See *en.wikipedia.org/wiki/Groupthink*.

5. WCESTF, "Task Force Membership," *www.ces.ncsu.edu/depts/agecon/WECO/wake/documents/roster.pdf*.

6. The task force did hear from economists late in the process, but those presentations provided only general principles, not evaluations of specific recommendations or alternatives.

7. The list of presentations are given on the bottom right-hand side of the task force web site, *www.ces.ncsu.edu/depts/agecon/WECO/wake*.

8. The members did receive landfill tipping fee data and the amounts that contract providers charge various Wake County cities to pick up residential solid waste.

9. Dr. Richard Stroup, North Carolina State University adjunct professor and former professor of economics and department chair at Montana State University.

10. United Nations World Commission on Environment and Development, *Our Common Future* (1987), Oxford: Oxford University Press, 1987.

11. Dr. Roy Cordato, *Sustainable Growth: Principles and Policies*, Nathaniel Macon Research Series No. 3, John Locke Foundation, May 2008, pp. 23-24, *www.johnlocke.org/research/show/policy%20reports/170*.

12. WCESTF, "Task Force Membership," *www.ces.ncsu.edu/depts/agecon/WECO/wake/documents/roster.pdf*.

13. Michael Sanera, "The Most Important Stakeholders Often Have No Say" *Carolina Journal Online*, January 7, 2011, *www.carolinajournal.com/articles/display_story.html?id=7240*.

14. William Boyes and Michael Melvin, *Fundamentals of Economics*, Second Edition, New York: Houghton Mifflin, 2003, p. 354.

15. WCESTF, "Environmental Stewardship Agenda," September 23, 2011, p. 15, *www.ces.ncsu.edu/depts/agecon/WECO/wake/documents/STF_Report_Draft_09.23.2011.pdf*.

16. Michael Munger, "Think Globally, Act Irrationally: Recycling," Library of Economics and Liberty, July 2, 2007, *www.econlib.org/library/Columns/y2007/Mungerrecycling.html*; Daniel K. Benjamin, "Eight Great Myths of Recycling" Property and Environment Research Center, *PERC Policy Series*: PS-28, September 2003, *www.perc.org/articles/article179.php*; Daniel K. Benjamin, "Recycling Myths Revisited," Property and Environment Research Center, *PERC Policy Series*: PS-47, July 2010, *www.perc.org/articles/article1282.php*.

17. Joseph Coletti, "Drought-Resistant Water: Variable prices can work better than mandatory restrictions," John Locke Foundation *Spotlight* No. 338, December 3, 2007, *johnlocke.org/research/show/spotlights/188*.

18. Dr. Roy Cordato, "Demand Management: Social engineering by any other name ...", John Locke Foundation *Spotlight* No. 402, October 28, 2010, *johnlocke.org/research/show/spotlights/253*.

19. Dr. Michael Sanera, "A Planners' Glossary: Understanding Raleigh's New Development Code, The Diagnostics & Approach Report," John Locke Foundation *Regional Brief* No. 75, March 2010, p. 5, *johnlocke.org/research/show/policy%20reports/208*.