POLITICAL ECONOMY AND THE ENVIRONMENTAL IMPERATIVE

Horst Mendershausen

January 1986
The Rand Paper Series

Papers are issued by The Rand Corporation as a service to its professional staff. Their purpose is to facilitate the exchange of ideas among those who share the author’s research interests; Papers are not reports prepared in fulfillment of Rand's contracts or grants. Views expressed in a Paper are the author's own and are not necessarily shared by Rand or its research sponsors.

The Rand Corporation, 1700 Main Street, P.O. Box 2138, Santa Monica, CA 90406-2138
POLITICAL ECONOMY AND THE ENVIRONMENTAL IMPERATIVE*

PRIVATE ENTERPRISE, THE CULPRIT OF POLLUTION?

When in the first half of this century economists began to take notice of environmental disruption attending economic development, they put the blame on private enterprise. Curiously enough, it was not the socialist theoreticians who were leading the way. Marx, Engels, Lenin were too progress-minded to care. They faulted private enterprise for exploiting the worker, not the environment, and with the exception of Engels, rather cheered on capitalism as a conqueror of nature.

"Bourgeois" economists A. C. Pigou and Karl W. Kapp were the ones who discovered that private enterprise was bound to inflict damage on society's natural environment, because the enterpriser knew only the costs he had to meet in cash and did not care about the "social costs" his activity would inflict on all. The title of Kapp's monograph, The Social Costs of Private Enterprise,¹ spelled out the message: private enterprise, by the very nature of its cost horizon, is the culprit of pollution.

Later socialist economists found the orthodox critique of private enterprise too helpful not to be exploited in their own teaching: here was one more evil of capitalism which socialism was sure to overcome. Oscar Lange announced in 1938 that "the feature which distinguishes a socialist economy from one based on private enterprise is the comprehensiveness of the items entering into the price system."² As late as 1973, Gunnar Myrdal was confident that the communist countries "should more easily be able to move further [in overcoming pollution] as they have only to incorporate new goals for the central planning that already exists."³ No wonder then that lesser defenders of the faith

---

*The author is grateful to Lilita Dzirkals and Barbara Kliszewski for helping with the collection of source material.
¹Schocken, New York, 1950.
asserted that "it goes without saying that, in the process of optimizing the interaction with nature, the superiority of the socialist system based on collective ownership is fundamental ... both in its theoretical foundations already examined by Marx, and from the angle of practical achievement as can be seen in the Soviet Union." And at least one such contemporary, in search of new relevance for Marxist doctrine, had it that the root of "the ecological crisis" lies in capitalism, and that a new "League of Communists" is destined to overcome that crisis by leading a revolutionary movement toward "ecological humanism." 

It should not be surprising that socialists, intent on using the orthodox economists' indictment of private enterprise as grist for their mill, did not pay attention to a caveat in Kapp's seminal work, viz. that the planned economy per se does not assure the proper allocation of social costs, through which pollution could be deterred. "It depends," he wrote, "on the planners' wishes." This suggested that if somehow, say, because of a devotion to maximum production or a susceptibility to tectomania, the planners should fail to assess state enterprises for social costs, then the planned economy would be as likely a source of ecological sin as a private-enterprise economy. It was not hard for the critics to skip over Kapp's caveat because Kapp himself did not seem to realize that this little sentence put in question the very thesis of his book.

Rather more surprising was the socialist critics' apparent ignorance of the environmental experience in "real socialism," i.e. the incidence of environmental disruption in the Soviet Union and its Eastern European satellites. By revealing the actual planners' priorities, this experience has brought out the significance of Kapp's innocuous caveat. The result is so sobering that the spokesmen of real socialism have lately begun to tone down their claims and to attribute ecological calamity to "human failings."

---

6Kapp, op. cit., p. 24.
THE PLANNERS' WISHES

What are the wishes of the planners in the socialist economy of the Soviet Union? And how do things work out when their wishes for the environment compete with other objectives? A fairly large literature from Soviet sources, governmental and other, and from the observations of a few Western visitors supplies answers to these questions. The main features of the situation can be summed up as follows:

(1) The amount of environmental disruption in the planned economy is enormous, both in the Soviet Union and in the East European states. It results from the familiar types of sources, industrial, agricultural and urban developments, changes in economic processes and living patterns.

(2) The awareness of environmental disruption in the Soviet countries has grown considerably since the 1950s, and the imperative of ecological care has been recognized in a broad stream of environmental legislation. Western experts have much praise for this legislation and consider some of it exemplary. Its seriousness cannot be in doubt when the Conservation Law of the RSFSR of 1960 declares: "Conservation is a major state task and a concern of all the people."

(3) The management of the state-owned enterprises works within an institutional framework of which environmental law forms a part. The dominant part of this framework is the requirement to fulfill the plan regarding output and full exploitation of resources. As for the prescribed ecological care, officials admit, and defend, that it must not upset the output plan and the financial (investment, profit) plans that serve it. The incentives and penalties for managers (bonuses, promotions, demotions) depend on plan performance. Fines for pollution, as a rule, are treated as costs of production. The Soviet Communist Party Program (1985 version) calls for struggle for or against many things, but does not mention ecological damage of any kind. Ecological virtue is evidently not a high priority matter. Other state tasks are "more major."

(4) From time to time, the Supreme Soviet of the USSR holds sessions on environmental affairs. A Vice-chairman of the Council of Ministers announces administrative actions, points with pride to the
accomplishment of some environmental improvements, and delivers a long list of rebukes to practically all ministries with economic responsibilities and many lower agencies for having failed to make such progress. (At the last occasion, in July 1985, the rebukes made up three-fourths of the transcript of his speech.) After the top man's speech, several deputies address themselves to general or local situations, usually by way of further complaints and appeals.

(5) The picture revealed in these official discussions and in accompanying media presentations is one of an ecological reality falling drastically short of the intentions set forth in laws and decrees. The shortfall is described as large or small, ordinary or criminal ("serious violations"), in one regard or another. Air quality in Moscow is improved, in other cities less so; new industrial pollution of Lake Baikal is said to be reduced with regard to organic pollutants, but undiminished with regard to mineral ones, and pollution is said to be progressing, in one respect or the other, in the Sea of Azov, the Caspian, the Baltic, the Black Sea and other bodies of water. Record keeping on water use is criticized as being insufficient; no progress is reported on the desulfurization of power plant flue gases after 10 years of efforts; automotive exhaust pollution is said to be increasing in cities; industrial projects are still being put in operation without the legally stipulated pollution controls being in place. Managers obey environmental law when plan fulfillment and investment funds permit. Otherwise they flout it, pay fines and continue the illegal practice. Ministers affirm their seriousness about conservation but oppose "underutilization of natural resources;" and vast projects are being discussed, such as the diversion of the Ob and Yenesei rivers to Central Asia, which in the opinion of Soviet critics would cause incalculable environmental damage.

(6) Soviet environmental practice, as reflected in these examples drawn mostly from official sources, is greatly at variance with claims being made on its behalf. A minister of public health at a Supreme Soviet session in 1968 lambasted "the capitalist system, by its very essence ... incapable of taking radical measures to assure efficient conservation of nature, ... [while] in the Soviet Union ... it is

---

7Vice-chairman Nurijew, according to Pravda, July 3, 1985.
forbidden to put industrial projects into operation if the construction of purification installations has not been completed." Seventeen years later, as the cited Nurijew statement shows, the prohibition is found to be ineffective.

If, then, the environmental performance of the planned economy fails to set the shining example, as promised, for the West's private or mixed enterprise economies, how does this come about? What can be said about the comparative susceptibility of the two systems to ecological disruption, its generation, the development of public awareness and monitoring, and efforts to correct the disruption? Are there inherent advantages on one side or the other in coping with these tasks, or is it all the same?

ENVIRONMENTAL TENDENCIES IN TWO REGIMES

Let us compare the opportunities which an open society, with a private-enterprise-based market economy and democratic politics, and real socialism, with a centrally planned economy and dictatorial politics, offer for the generation, public awareness and correction of environmental damage.

Generation of Environmental Disruption

Both regimes are evidently capable of disrupting, through economic processes of various sorts, the environmental balance with respect to air, water, soil and subsoil, sound, plant and animal life. Infrastructure developments, expansion and intensification of agriculture and extractive industries, growth of material goods production and consumption, new processes, urbanization and transport developments impinge on the environment under whatever regime. Still there are differences.

To the extent that one regime may be associated with a greater emphasis on the expansion of primary and secondary production, as the Soviet one continues to be, and the other with a greater emphasis on tertiary (non-material, service type) production, as is the case in

---

advanced Western countries today, they may differ because many activities of the first kind threaten the environment more than those of the second. In the West, moreover, some primary and secondary industries nowadays "migrate" to new industrial countries in Asia and Latin America, taking their pollution problems with them.\footnote{Some spokesmen of the less developed countries are as eager to welcome the displacement of industries to them as to blame "international capitalism" and the more advanced countries for ecological disruptions occurring in their jurisdictions. See Beat A. Jenny, "Das Umweltschutzprogramm der Vereinten Nationen," Annuaire Suisse de Science Politique, Bern, Vol. 21, 1981, pp. 99-119. Environmental controls in most of the less developed countries are woefully insufficient, notably for native enterprises.} Similarly, a higher level of material goods consumption by the population under one regime tends to generate more environmental strains, e.g., through motorization and the spreading of trash, which are greater ecological threats in the West. These factors influence a comparison of current conditions in the Soviet Union and advanced Western countries, with, say, air pollution by power plants in the East and by automobiles in the West exemplifying area-specific sources of trouble. But the developmental stage or configuration of a country's economy does not dictate the extent of environmental disruption it must suffer. This still depends on the country's priorities in resource use, or "the planners' wishes." No country can excuse environmental destruction by invoking economic laws beyond its control.

Two other factors, both pertaining to the way in which polluting activities come about, are more clearly linked to the economic regime. The normative rule of plan fulfillment in the Soviet economy plays much the same role as the bottom line in the profit and loss account of Western enterprises. But the \textit{arbitrary costing} in the Soviet system systematically understates the \textit{direct costs} of certain ecologically important inputs. Following Marxist doctrine that water, land and subsoil resources have no value because they don't incorporate human labor, and the notion that, belonging to the state, these resources should come free to anyone authorized to use them, Soviet enterprise accounting has neglected, and with marginal compromises continues to neglect, the costs of these inputs. This practice leads of course to wasteful employment of these resources and to excessive environmental
disturbance. In the West, these costs are market-set private costs which no user can overlook. They are likely to discourage some disturbances of the habitat simply by making them too expensive. Proper direct costing acts, if not as an absolute barrier, at least as a first obstacle to ecologically noxious activities.

As for the social costs, to which Pigou and Kapp found private enterprise so insensitive, there is no sign that the socialist economy has found any more convincing ways of bringing them to bear on production decisions. On the contrary, the industrial compartmentation of the planned economy sees to it that enterprises, responsible only to the high command of their industrial branch, are if anything more sheltered from charges related to damage they inflict on others than are enterprises in a modern market economy. In both the socialist and free economies, the law usually obliges the pulp mill or the surface mining enterprise to pay for cleaning up the devastations they are apt to cause; but where the cost of cleaning up is largely incalculable, as may be the case in certain inherently dangerous chemical and waste processing activities or with the remote effects of many others, both systems face the dilemma of either permitting the pollution to go on under fines, which often are a capricious stand-in for social cost attributions, or shutting the activity down and accepting the consequent financial losses, plan failure and unemployment.

The second factor consists of the greater opportunity for collusion between the agents of economic management and those of environmental protection in the state-run system. Cases of such collusion are reported time and again in open societies, showing negligent enforcers of protective legislation who may even be in the pay of ecological culprits. But these cases cause scandal and, as a rule, will soon be corrected. Market economy implies a division of powers between economic management and law enforcement. Where public authorities are not

---

10 Such disruption, caused by the neglect of opportunity costs, has been identified in developments along the Black Sea coast, in the Caucasus and in Central Asia, and is now predicted in conjunction with Soviet projects to reverse the flow of Northern Russian and Siberian rivers. See M. Goldman, op. cit., passim. - The same may apply to the controversial diversion and dam-building project on the Danube, which is currently being pursued by the Czechoslovak and Hungarian governments.

11 This description probably fits American circumstances better than
quick enough in purging law enforcement of such conflicts of interest, private organizations and the media will remind them. By contrast, the integration of economic, political, judiciary authority and the media in the Soviet System favors collusion between managements and ecological watchdogs and the subordination of environmental law to the rule of the plan. A Western student of Soviet ecological policy cannot help be amazed by the widespread and persistent flouting of the often excellent ecological legislation by organs of the Soviet state.

This lawlessness contrasts strikingly with the severe policing of the individual Soviet subject, and it largely nullifies the great advantage in enforcement which the totalitarian state possesses by tying all public functions together in one network of authority. This advantage, it seems, works only for the enforcement of the highest priorities. For any function of lower priority, and ecological care is decidedly one of those, the intertwined authorities see to it that it gives way whenever it conflicts with a higher one. "The mandated antipollution equipment," a manager will say, "would absorb too much of the investment funds available to me; therefore I shall not install it." Higher authority may complain but will not fire him.

The ideologically based distortion of cost accounting, the artificial pricing, and the muting of the adversary relationship between economic management and law enforcement in the Soviet planned economy contradict Lange's assertion cited above. The private enterprise economy is in all likelihood superior to the socialist one with regard to the comprehensiveness of the factors entering into the price system and the safeguards against lawlessness, and consequently in the efficiency of preventing ecological damage.

those of several European countries, since the relationship between American big business and governmental agencies tends to be more adversary today than is the case for big business in various parts of Western Europe. Conflict-of-interest situations are tolerated more readily there than in American environmental practice.
Public Awareness of Disruption

In the last few decades, Western Europeans and Americans have become accustomed to extensive reporting and commentary on the environmental difficulties in their countries. Everyone hears of the phenomena of gradual ecological deterioration and a fortiori of the occasional accidents. The printed and electronic media see to it that no environmental trouble is left unreported and outside critical scrutiny. Private ecological organizations have developed into powerful pressure groups, and politicians and political parties have seized on environmental issues with a sure instinct for public concerns and fears, some making these their principal business.

This wave of public concern and the network of agencies responsive to, or responsible for it, have on the one hand led to much new protective legislation and administrative action in the open societies, and on the other hand prodded along enforcement of their laws. It has made it increasingly difficult for economic management to persist in environmental malpractices and helped to reward clean practices. However intractable the environmental damage may be, it does not escape public notice. In fact, ecological critics occasionally exaggerate the troubles, understate the correctives at work, prophesy impending disasters and induce costly blunders in the name of environmental protection (see below).

The Soviet Union and Eastern European societies are very different in this respect. Not that they lack awareness of environmental troubles. The common people there are probably no less aware of pollution than those in the West. One can hear expressions of dismay by many ordinary citizens in the affected areas, and critical commentary by scientists and authors who use whatever channel of publicity may be open to them. From the top, too, as we have seen, come occasional acknowledgements of malperformance. But somewhere in the middle there are important gaps.

Spontaneous criticism is not encouraged, but it has not been suppressed hitherto with anything resembling the ruthlessness shown toward dissidents and critics of the flouting of the Helsinki accords. A Siberian novelist and Lenin Prize laureate may publish a severe
critique of Soviet environmental management in a popular journal abroad. In heavily polluted areas of the GDR, ecological activists get together in groups, some with the help of protestant churches. Academicians in the USSR, Poland and Czechoslovakia discuss ecological disasters in specialized journals and reports. Still the scope given to such expressions is severely limited. The principal media, say, Pravda, report only the criticism coming from the top or official organizations, while a highbrow journal, say, Literaturnaja Gazeta, may provide a temporary forum for free debate. Party authorities appear to permit such discussions at times when there is internal debate within the regime, ministers disagree, etc.

But the regime's claim to a monopoly of information and organization applies to this area no less than to any other. Published debate stops at a point and may continue only in Samizdat format. Citizens founding an "initiative for the protection of life and environment" in Bohemia are threatened with imprisonment if they do not join the official "association for the protection of nature." All the communist countries seek to channel environmental activism into Party-controlled agencies of this type. The Party in turn suppresses information about air and water pollution, discourages monitoring and spreads disinformation to the effect that acid rain resulting from the large sulfur dioxide emissions of the country's lignite-fired power plants is merely an invention of Western television.

---

12Valentin Rasputin, "Katastrophale Folgen fuer Sibirien," Interview in Der Spiegel, April 8, 1985. The criticism has interesting Russian-nationalistic overtones.
14Die Presse, Vienna, September 3, 1985. Similarly in the GDR where persistent critics who refuse such synchronization have been jailed for "defamation of the state."
15Goldman reports the Soviet version to have nearly 20 million members and to be headed by the First Deputy Minister of Land Reclamation and Water Management of the RSFSR, the country's biggest dam builder and one of the major polluters. The Spoils of Progress, op. cit., p. 189.
Thus the flow of information and critical opinion about environmental disruption is greatly limited and diluted in the Soviet type societies. Its capacity to induce the rulers to enforce the law or desist from new damaging projects is reduced to a minimum. The contrast to the unrestrained and abundantly informed flow of criticism in the pluralistic system could not be more striking.

Correction

Among the many ways in which human activity impinges on the environment there are some that we recognize as disruptive. In order to minimize the damage they do we may reduce the activities or correct their damaging effect. Either approach calls for doing something new or bringing a new priority to bear on that activity, and as long as previous ways and requirements remain in effect, the problem is how to make room for the new, how to rearrange the old and new requirements.

It is not foreordained that raising the priority of environmental care must be costly. A discovery of a new technology, say, a new source of energy, may furnish a kind of energy more desirable than the one it replaces in terms of cost and usefulness as well as environmental impact. In this ideal case, reducing environmental damage would come free, a byproduct of innovation. In fact, economic innovation and development, unassisted by any kind of deliberate environmentalism, have played no mean role in overcoming some environmental evils of earlier forms of civilization. But in many instances today environmental improvement will not come free, and the raised priority of environmental care will entail costs, loss of output, investment required for compensatory production, alternative technology or infrastructure, unemployment, etc. Whether open society or real socialism are better prepared for raising the environmental priority hinges on their comparative flexibility in ascertaining the damages and meeting these costs. It seems to me that the open society has more flexibility and therefore better prospects of reducing environmental disruption.

Care for the environment has become a powerful imperative in the familiar Western setting of political pluralism, free-flowing information, an independent judiciary and a market economy based on
private enterprise. Democratic politics play an important part in this, as Kapp recognized well. But the market economy also plays an important part by keeping the price system honest and underpinning political pluralism.

In this setting, the environmental imperative has a good chance of reaching the economic agents, private and public, and influencing their decisions. The channels are manifold: administrative and judicial prohibitions and performance standards, licensing conditions, fines and subsidies, data collection and publicity, education, market demand for "cleaner" products, demand for environmental engineering, and sundry public and private efforts. One should also note the interesting although so far inconclusive endeavors in the West to develop measurements of the "quality of life," encompassing environmental and other elements.\textsuperscript{17} All of these have their limitations and may not avail quickly where other requirements are strongly defended. Nor can they meet demands for total preservation except in very limited areas. But there is no denying that the trend toward treating the environment as a scarce commodity runs strong in the open societies of the West,\textsuperscript{18} and that it is bringing about adjustments that were undreamt of a couple of decades ago.\textsuperscript{19}

In the light of the foregoing discussion, it remains very much to be seen whether the Soviet system can arrive at a similar practical recognition of the scarcity value of the environment. Its present centralistic-bureaucratic structure and persistently strong emphasis on output quantities present great obstacles against which even the wishes of a well motivated ruler may not prevail. Its judicial system appears to be blind to the principal breaches of environmental law.\textsuperscript{20} The economic liberalization, which is generally held to be indispensable for

\textsuperscript{17}For a review of these endeavors, see Wolfgang Zapf, "The Polity as a Monitor of the Quality of Life," \textit{Ecosocial Systems and Ecopolitics}, op. cit., pp. 235 ff.
\textsuperscript{18}Bruno Fritsch, op. cit., pp. 162-3.
\textsuperscript{19}Some of these adjustments are overreactions, as may well be the case with the delaying of oil development along the American West Coast and the interference with nuclear power projects in several countries.
\textsuperscript{20}"At a conference of Soviet specialists [in 1970] on the legal problems in conservation, the complaint was made, a la Ralph Nader, that the main thrust of conservation law in the USSR was directed against the wrong targets.... So far it is the poacher (that is, individual
more self-supporting technological advances and greater consumer satisfaction, may also be needed to make the country live up to its environmental legislation. But since the party fears, probably rightly, that the economy cannot be loosened up without changing the command structure, and that no other structure would support its monopoly of political power, that way seems to be barred. There remains the traditional recourse to blandishments and promises. In this fashion, the Party's guidelines for economic and social developments in the five years ahead declaim: "A sense of lofty responsibility for protecting and augmenting natural resources and for their careful utilization is to be inculcated in Soviet people. The management of environmental protection in the country is to be improved."21

CONCLUSIONS

This comparison of systematic tendencies leads to a result about the reverse of the theoretical, and at best a prioristic, propositions cited at the beginning of this essay.

Instead of being congenitally unable to do justice to the environmental imperative, the open society with its mixed economy based on private enterprise offers good facilities for adapting to it. Instead of serving as an ideal basis for such an adaptation, the socialist planned economy in its political setting offers greater facilities for resisting and circumventing the imperative.

An essay of this scope cannot compare measurements of environmental disruption or care across the broad spectrum of relevant aspects, even if comparable indices were readily available—which they are not, partly for reasons given above. But it is likely that the growing interest in environmental conditions in other countries, and even some international cooperation in combatting pollution, which shows little respect for political boundaries, will lead to empirical studies which may test the effects of the tendencies described here.

citizens) that are being harrassed, while government institutions (factories and municipalities) are frequently left to themselves." Goldman, op. cit., p. 33.

21Draft Guidelines for Economic and Social Development of the USSR for 1986-1990 and the Period through the year 2000, by the CPSU Central Committee, Pravda, November 9, 1985.