

“Externalities and Ethanol “

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12 Minutes – Theory and Opinion

- How well do markets allocate resources?
- What is the likelihood that ethanol will be produced at a socially optimal level?
- Is there a way to avoid the easy way out?

Markets

- Markets allocate private goods – those that are excludable and rivalrous quite well.
- Markets have little care for the distribution of costs or benefits.
- Markets can not optimally allocate goods that are produced with current or future externalities.

Externality

- Cost or benefit resulting from the production of a good or service which affects those who are not selling or buying the good or receiving direct benefits.
- Can externalities be internalized within the price of the good or service?

How far away from you in culture, distance and time can you care (Adam Smith and his earthquake example in *Moral Sentiments* and John McPhee - David Brower & Floyd Dominy in *Encounters with the Archdruid*).

How many people have savings accounts established for their grandchildren or great grandchildren or how many of people miss meals because they are so upset by the impact on others of a natural disaster?

Sympathy is the ability to understand another's feelings because you have had the same experience or feelings.

Empathy is the ability to put your self in another's position without a shared experience.

Funding Mechanisms for the Future

- Internalizing Externalities with Taxation
- Internalizing Externalities with Reporting and Research
- Matching Subsidies and Trust Funds

Special Attention

- Losses in the Conservation Reserve Program?
- Chances of adequately internalizing the future external costs – minimal.
- Focusing on alternative production (cellulosic) rather than conservation, alternate systems (mass transit) or incentives for adjusting consumption patterns.
- Lock-in
- Globalization and the changes in our real wages in the future will make it progressively more difficult to forgo present consumption for future generations' consumption-there will be less discretionary income.

The solution is not in the details – it is in the big picture and the extent to which we will share with each other now and in the future. Just engaging others beyond conferences and talk – in shared work, would be a big step forward.