

## Book Review of Capital Needs in the Seventies

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# BOOK REVIEW

CAPITAL NEEDS IN THE SEVENTIES. BY BARRY BOSWORTH, JAMES S. DUESENBERY, AND ANDREW S. CARRON. Washington, D. C.: The Brookings Institution, 1975. Pp. 85. \$2.50.

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This slight but pithy book, an assessment by the Brookings Institution of capital needs and capital formation prospects for the 1970's, will be of interest to lawyers, legislators, policy makers, and others concerned, *inter alia*, with the ability of the American private economic sector to meet the investment requirements imposed by existing environmental laws and regulations. Various studies of the cost of environmental reform<sup>1</sup> have been undertaken since official concern for the problem first was manifested in 1972,<sup>2</sup> but it is doubtful that environmental capital requirements have been quantified with any degree of accuracy or completeness. Still less progress has been made in devising capital formation methods to meet the needs that will arise.<sup>3</sup> Unfortunately, the Brookings

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1. *Hearings on the Economic Impact of Environmental Regulations Before the Joint Economics Committee*, 93d Cong., 2d Sess. (1974); U. S. COUNCIL ON ENVIRONMENTAL QUALITY, ENVIRONMENTAL QUALITY: SIXTH ANNUAL REPORT (1975); U. S. COUNCIL ON ENVIRONMENTAL QUALITY, ENVIRONMENTAL QUALITY: FIFTH ANNUAL REPORT (1974); U. S. COUNCIL ON ENVIRONMENTAL QUALITY, ENVIRONMENTAL QUALITY: FOURTH ANNUAL REPORT (1973); U. S. ENVIRONMENTAL PROTECTION AGENCY, THE COST OF CLEAN AIR (1974); U. S. ENVIRONMENTAL PROTECTION AGENCY, COST TO THE CONSUMER FOR COLLECTION AND TREATMENT OF WASTEWATER (1970); U. S. ENVIRONMENTAL PROTECTION AGENCY, THE ECONOMIC IMPACT OF EPA'S AIR AND WATER REGULATIONS ON THE ELECTRIC UTILITY INDUSTRY (1975); U. S. ENVIRONMENTAL PROTECTION AGENCY, THIRD REPORT TO CONGRESS: RESOURCE RECOVERY AND SOURCE REDUCTION (1975); U. S. ENVIRONMENTAL PROTECTION AGENCY, SECOND REPORT TO CONGRESS: RESOURCE RECOVERY AND SOURCE REDUCTION (1974); U. S. DEP'T OF COMMERCE, THE EFFECTS OF POLLUTION ABATEMENT ON INTERNATIONAL TRADE (1973-1975); National Commission on Water Quality, Staff Draft Report, Nov. 1975.

2. U. S. COUNCIL ON ENVIRONMENTAL QUALITY, DEPARTMENT OF COMMERCE, & ENVIRONMENTAL PROTECTION AGENCY, THE ECONOMIC IMPACT OF POLLUTION CONTROL: A SUMMARY OF RECENT STUDIES (1972).

3. The Senate Finance Committee began hearings on March 16, 1976, to determine, *inter alia*, possible environmental capital formation methods that can be achieved in the

study significantly understates environmental capital requirements and adds little to current thinking about capital formation methods.

One of the most promising methodologies for the quantification of environmentally related capital requirement was first espoused in 1973 by the Council on Environmental Quality and was refined and updated in 1975.<sup>4</sup> This methodology classifies environmental costs into four categories: damage costs, avoidance costs, abatement costs, and transactions costs. Damage costs reflect such losses as ill health, blighted crops, and corrosion of buildings. Avoidance costs include the purchase of air or water filtration systems or the expense of moving to an unimpacted area. Abatement costs encompass resources expended to reduce or eliminate pollution, including indirect costs arising from the impact of these expenditures on economic growth, productivity, or employment. Transaction costs include the value of resources allocated to research, planning, monitoring, and other activities necessary for pollution abatement. The Council on Environmental Quality estimates incremental<sup>5</sup> pollution control costs during the period 1974 to 1983 will total 381 billion, of which 165.3 billion will be expended on capital investment.<sup>6</sup>

The Brookings study covers the remainder of this decade, only part of the period embraced by the analysis of the Council on Environmental Quality. Moreover, the Brookings study does not consider fully the cost imposed by legislation regulating air pollution, radiation, and solid wastes. Despite these differences between the data of the Brookings Institution and of the Council on Environmental Quality, it seems clear that the Brookings study, by the limits of its methodology, fails to consider significant incremental environmental costs. Moreover, the forecasts for the costs it considers (primarily water-related increments) appear to be well below comparable forecasts by the Council on Environmental Quality,

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pending tax reform legislation. *See also* Report of the Tax Policy Advisory Committee to the Council on Environmental Quality (1973).

4. U. S. COUNCIL ON ENVIRONMENTAL QUALITY, ENVIRONMENTAL QUALITY: SIXTH ANNUAL REPORT 494-570 (1975); U. S. COUNCIL ON ENVIRONMENTAL QUALITY, ENVIRONMENTAL QUALITY: FOURTH ANNUAL REPORT 73-117 (1973).

5. Incremental costs are expenditures necessitated by designated federal environmental legislation. The designated legislation is that which regulates air, water, radiation, and solid waste. Estimates for noise, land reclamation, strip mining, coastal zone planning, pesticides, and other environmental categories are not included. Nor does the Council on Environmental Quality estimate include the cost of compliance with state or local environmental programs.

6. U. S. COUNCIL ON ENVIRONMENTAL QUALITY, ENVIRONMENTAL QUALITY: SIXTH ANNUAL REPORT 564, TABLE 16 (1975).

the Environmental Protection Agency, or the National Commission on Water Quality.<sup>7</sup>

The gravity of this downplay of environmental costs is evident in the answer to the rhetorical question, "Can we afford the future?" The response of the Brookings Institute is "[W]e can afford the future, but just barely."<sup>8</sup> Failure to consider environmental capital needs of nearly \$100 billion during this decade is disquieting.<sup>9</sup> The bland prognosis of the study is that, "[a]lthough investment needs will represent a higher share of total output than in the past decade, they can be met by a moderate adjustment of fiscal and monetary policies."<sup>10</sup> It is unclear whether the Brookings study could have reached this conclusion had it more realistically taken into account the amount of capital that environmental pollution abatement will require.

Fortunately, Congress as well as many institutions responsible for environmental reform has recognized the formidable capital demands the nation must meet to achieve its environmental goals. If this recognition is not galvanized into an innovative program of environmental capital formation techniques, the dawning age of environmental reform and enhancement will not be realized.

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7. See note 1 *supra*.

8. B. BOSWORTH, J. DUESENBERY, & A. CARRON, CAPITAL NEEDS IN THE SEVENTIES 2 (1975).

9. No precise annual incremental forecast data is available to adjust the 1974-83 estimate of the Council on Environmental Quality to reflect the Brookings "decade of the 1970's" approach. Omission of major environmental categories, however, inevitably produces major understatements in the Brookings forecast.

10. B. BOSWORTH, J. DUESENBERY, & A. CARRON, CAPITAL NEEDS IN THE SEVENTIES 2 (1975).