

CAPITALISM AND THE ENVIRONMENT

Rising economic inequality has put capitalism on trial globally. At the same time, existential environmental threats worsen while corporations continue to pollute and distort government policy. These twin crises have converged in calls to revamp government and economic systems and to revisit socialism, given up for dead only 30 years ago. In *Capitalism and the Environment*, Shi-Ling Hsu argues that such an impulse, if enacted, will ultimately harm the environment. Hsu argues that inequality and environmental calamities are political failures – the result of bad decision-making – and not a symptom of capitalism. Like socialism, capitalism is composed of political choices. This book proposes that we make a different set of choices to better harness the transformative power of capitalism, which will allow us to reverse course and save the environment.

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Capitalism and the Environment

A PROPOSAL TO SAVE THE PLANET

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Cambridge University Press
978-1-108-47482-5 — Capitalism and the Environment
Shi-Ling Hsu
Frontmatter
[More Information](#)

CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom
One Liberty Plaza, 20th Floor, New York, NY 10006, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre,
New Delhi – 110025, India
103 Penang Road, #05–06/07, Visioncrest Commercial, Singapore 238467

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9781108474825

DOI: 10.1017/9781108681599

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First published 2021

A catalogue record for this publication is available from the British Library.

Library of Congress Cataloging-in-Publication Data

NAMES: Hsu, Shi-Ling, author.

TITLE: Capitalism and the environment : a proposal to save the planet / Shi-Ling Hsu, Florida State University College of Law.

DESCRIPTION: Cambridge, United Kingdom ; New York, NY : Cambridge University Press, 2021. | Includes index.

IDENTIFIERS: LCCN 2021024552 (print) | LCCN 2021024553 (ebook) | ISBN 9781108474825 (hardback) | ISBN 9781108465526 (paperback) | ISBN 9781108681599 (ebook)

SUBJECTS: LCSH: Capitalism – Environmental aspects. | Sustainable development. | Environmental policy.

CLASSIFICATION: LCC HD75.6 .H78 2021 (print) | LCC HD75.6 (ebook) | DDC 338.9/27–dc23

LC record available at <https://lccn.loc.gov/2021024552>

LC ebook record available at <https://lccn.loc.gov/2021024553>

ISBN 978-1-108-47482-5 Hardback

ISBN 978-1-108-46552-6 Paperback

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Preface

The science of climate change is still inherently uncertain, but it seems safe to say that in recent decades, the news almost always seems to be *worse* than what climate scientists previously believed likely. Despite being villainized by Republican politicians as being “alarmist” (and being threatened with bodily harm), climate scientists seem to be erring consistently on the side of not being alarmist enough. Ice shelves that were projected to destabilize in decades are now showing signs of earlier destabilization, tropical cyclones are more strange, powerful, and destructive, wildfires and beetle infestations are more destructive and uncontrollable, and strange things are occurring in oceans that are either more ominous than previously thought, or completely unexpected. The world may be at risk of losing most of its coral reefs, not in the coming century, but in coming decades, perhaps even the coming years.

This is not to blame climate scientists. The nature of science is to only assert a positive finding after rigorous testing and peer review, and a near-certain rejection of the status quo. Science is fundamentally conservative in its methodology. That is as it should be.

What is problematic, however, is that *some* technologies, unfettered by the conservative methods of scientific research, have raced ahead of scientific inquiry as to its effects. Insofar as science is the way in which humankind understands its effect on the environment upon which it depends for everything, it is losing a race to determine what human society looks like, and how it affects the global environment. Technology is not itself the problem, but rather the mass deployment of some potentially harmful technologies with insufficient regard to their environmental effects. Some fast-developing technologies do not, as a first-order estimate, seem to have large environmental consequences. The technologies of the big five technology giants are an example. Other technologies are decidedly not neutral or benign, and some of those have developed despite warning signs that they are environmentally harmful. For example, it is mind-boggling that oil companies have developed the technology to construct a floating factory the size of thirty football fields, and

extend from it a tube that drops down into 10,000 feet of ocean water, penetrates a geologic shell, and extracts oil. In Northern Alberta, Canada, oil companies dredge up enormous chunks of land, denuded of trees and other life, and heat up the chunks in enormous chambers in order to leach out bitumen. And the cost of these miraculous technologies is startlingly low. In Alberta, mature oil companies can distill this crude oil from Earthen chunks at the cost of just \$8 per barrel, while in Saudi Arabia, extracting oil from its oil fields is less than \$3 per barrel. How did we learn such technological heroics?

Belatedly, humankind is coming to grips with the human and ecological costs of an industrial, fossil fuel-centered modern society. A realization is growing that human society has been insufficiently attentive to the effects that civilization has had on the planet that it inhabits, and depends upon, for everything. A clear majority of people, even in the United States, a hotbed for climate-deniers, believe that climate change is real, is a serious problem, and warrants strong government and international action. California wildfires have burned out of control in three of the last four years, killing hundreds and scorching millions of acres, forestland greater than the size of New Jersey in 2020 alone. The call in the United States for a vast, expensive “Green New Deal” highlights the environmental angst that has developed in many quarters of the United States. Worldwide, the sudden superstardom of a Swedish teenager, Greta Thunberg, has galvanized people. Caring about climate change and the environment, and seeing the problem in terms of the planet we bequeath to the coming generations, has become a globally common concern.

At the same time that humankind is waking up to the darkening of its prospects of life on Earth, it is wrapped in economic turmoil. Even before the COVID crisis, economic inequality had been gaining attention worldwide. Thomas Piketty’s 2015 publication of his *Capital in the Twenty-first Century* exploded in popularity, surprising even Piketty and his publishers. Readers were concerned enough with inequality to be willing to work their way through 788 pages fully stocked with data. Scholarly criticism has dulled his message a bit, but the underlying theme is clearly intact: capitalism must be constrained. And the stakes are great: even in stable, social democratic countries, a new, xenophobic, often violent populism has emerged, threatening a world order that just decades ago seemed comfortably committed to classic liberalism. Capitalism is on trial. The United States is also a hotbed of hostility to socialism, but now is also home to a younger generation of people that feel at ease with socialism. Bernie Sanders ran two spirited presidential campaigns railing against the excesses of capitalism. He actually promised a socialist state, and got quite far with that platform.

It does not take much imagination to connect the two currents. Populist writers conflate capitalism with greed and excess, and point to the profit motive as the driver of countless environmental insults and tragedies. Everywhere you look, it seems, a greedy corporation acts with wanton disregard for the environmental consequences, and worse still, distorts government and public policy to protect its little

(perhaps not so little) economic fiefdom. For decades, oil companies such as ExxonMobil funded misinformation campaigns, carried out by zealots, intent on foiling government action on climate change. They continue. Organizations such as the Competitive Enterprise Institute, the Heartland Institute, and the Heritage Foundation, continue to push for environmental deregulation, and continue to try and cast doubt on the science of climate change and the economics of climate policy. Behind the campaign to stall climate policy activists see the corrupting influence of the profit motive, and capitalism at its worst.

That is the wrong way to think about capitalism. Capitalism is a system of economic governance, a way of achieving a coordination of resources. Capitalism is extremely efficient at coordinating resources, and if the capitalist enterprise happens to impose uncounted costs upon the rest of society, then things can unravel quickly. But capitalism is still directed by *political choices*, which determine the direction that private firms take in their quest for profits and capital. That capitalist societies have produced an inordinate amount of pollution, that firms have been able to distort government policy through these misinformation organizations is a *political* failure, not a flaw with capitalism. Capitalism should never have been considered, as it is still considered in too many quarters, a self-governing state of existence. Capitalism has always required a direction. The political failure to provide one has set capitalism off on a course, too exuberantly bounding in the wrong direction.

That capitalism is blamed for a global environment careening towards collapse is a serious mistake on two fronts. First, it deflects blame away from where it squarely belongs: on the political classes that have allowed capitalism to metastasize into fossil fuel oligarchies controlling a political fiefdom. If the fault lies with capitalism, so the illusion goes, then replacing it with something like socialism will fix everything. That mistake naively forgets the kind of corruption that occurs under socialist governments, necessarily authoritarian. A socialist economic order will be worse for the environment, not better. Second, the mistaken impulse to abolish capitalism spurns the means by which humankind can right itself in its relationship with the global environment. Fixing industrial societies that are too dependent upon fossil fuels and unsustainable farming practices will require an *injection* of capitalism, not a rejection. Economies and societies do not change easily. One of the few forces capable of making profound change in a short period of time is capitalism. In the United States and elsewhere, that change can be costly: Amazon and Walmart have hollowed out many communities and retail industries, and changed the way people interact with each other. But capitalism is also hollowing out the coal industry. Both of those transformations are socially wrenching, creating dislocations that must be urgently addressed. But reducing coal use is something that *had* to happen, and after decades of weak successes in regulating the many effects of coal extraction and combustion, it was finally the capitalist transformation of natural gas extraction that brought about a much-needed decline in coal use. Capitalism is the engine of

change, but it does not steer it. Political choices steer it, and this book is a call to make a different set of political choices. Humankind must harness capitalism, not quash it.

Mistaken thinking about capitalism is understandable, because it is abetted by incumbent industries that have captured too secure of a foothold in the political classes. The two administrators of the U.S. Environmental Protection Agency under the Trump Administration were, respectively, an Oklahoma Attorney General that championed the oil, gas, and coal industries (with their unwavering financial support), and a coal lobbyist and lawyer. So, too, Interior Secretary David Bernhardt, who was a lobbyist for the coal industry before his public position. In President George W. Bush and Vice President Dick Cheney, the Executive Branch was led by two individuals who had made their personal fortunes in the energy industry. These people did not preside over a capitalism that would have been recognizable to Adam Smith or Joseph Schumpeter. These people were the beneficiaries of an energy oligarchy, and once in political office, the guardians of energy interests.

And yet, these were individuals who wrapped themselves up in the flag of capitalism, propounding the specious claim that they were paragons of capitalism. Unfortunately, their political supporters believed them, and unfortunately so did the opposing side of environmentalists, activists, and most Democrats. What so many people missed was that far from being capitalists, they were actually oligarchs sliding towards socialism. Energy industries have enjoyed subsidies and privileges unavailable to other industries. One stands out: the insulation from environmental laws that would internalize the costs they impose on society. While difficult to price, those unpriced costs may turn out to be among the most expensive suffered in the history of all humankind. Continuing that slide would bring about more socialist environmental catastrophes, such as Chernobyl, the Three Gorges Dam, and the hollowing out of the Aral Sea. That is the stuff of socialism, and ultimately how socialism costs and corrupts.

This book is a call for two disparate but vitally important groups to find common cause: environmentalists and capitalists. Both must reject ideological dogmas that have divided them. Environmentalists must reject the calls from populist calls to burn down the whole “system” and install a socialist system, supposedly responsive to environmental needs. That has never happened at any significant scale in the history of humankind, and never will. For their part, capitalists must recognize how far capitalist economies have slid from true capitalism, an economic governance that is meant to minimize costs. Capitalist economies in flagging democracies have minimized costs to private firms, not to society. The tragedy is that the private gains have been far smaller than the public costs. A true capitalism would account for and internalize the social and environmental costs, and eliminate this perverse accounting.

Both of these assertions are difficult to accept. For environmentalists, the paradigm that conflates capitalism with environmental harm is a politically convenient one. As long as capitalism is considered the problem, the difficult job of repairing broken politics can be deferred. It is not just removing corrupt and captured politicians. Longstanding legal rules and institutions that have contributed to the broken politics must be reformed. There are many in the environmentalist and activist groups, and many Democratic politicians and political operatives that benefit from these rules and institutions. They will have to go.

On the other side, an enormous number of jobs depend upon the economic status quo. Capitalism is predicated on failure, as a disciplining mechanism, and that mechanism has been severely robbed of its effectiveness. Capitalism has been too breezily invoked to explain how some companies rise to spectacular profitability, and somehow conveniently neutered when those same companies face difficulty due to a changing legal or economic landscape. Getting industries and their people to face failure is excruciating. Some plan for alleviating hardship must accompany a harder, truer, more genuine capitalism. But change must come.

Ultimately, this book makes a populist call. While some capitalist titans have begun to accept the need for certain policy changes (such as climate policy), in order for the programs in this book to become law, a push must come from a much broader group of people. These people must recognize that what we have in most capitalist countries is not so much capitalism but an uneasy and unsustainable bargain to continue to do things a certain way. That is the antithesis of Schumpeter's capitalism. What I hope this book does is create the discussion space needed for some much-delayed, much-needed recognition of all that has gone wrong with both environmentalism and capitalism, and a bracing and honest reevaluation of how these two movements might work in concert to save the future of human civilization.

Acknowledgments

Writing this book in the midst of the COVID crisis certainly *felt* like I was doing this alone, but that was never the case. Not even close. To begin with, this book is the product of a long, meandering, and not altogether purposeful journey inspired by my primary Ph.D. advisor, Jim Wilen, now Professor Emeritus at the University of California at Davis's Agricultural and Resource Economics Department. He may be chagrined that I've strayed so far from the fisheries economics work for which he was so justly famous, but he was always proud of his students, whatever they did, as long as they did it well. I hope this book meets his standards. Indeed, this book is *not* what he and his colleagues at U.C. Davis trained me to do, which is to undertake rigorous economic inquiry and testing. But while this book is not in that style, my hope is that those that happen to find themselves reading this book will readily recognize Jim's influence, and that of his colleagues, in my arguments in this book.

Along the way, I have workshopped many papers leading up this book, benefiting from the counsel and advice of countless friends and colleagues. Among those, I wish to specifically acknowledge the help from events at the Pritzker School of Law at Northwestern University, the Maurer School of Law at Indiana University, the Wake Forest University School of Law, and meetings of the Midwestern Law and Economics Association, the American Law and Economics Association, and the Society for Environmental Law and Economics. I wish especially, however, to acknowledge my colleagues that participated in a workshop at the James E. Rogers College of Law at the University of Arizona, organized and moderated by my friend and colleague, Justin Pidot. It was after that workshop that I made a sharp turn to a new thesis.

I was supported by so many in the research and writing of this book. I benefited at various stages from comments from and conversations with Roberta Mann, Peter Grossman, Steve Johnson, Dan Cole, Jonathan Nash, Shahar Dilbary, Eyal Chich, Patrick Westhoff, Katrina Kuh, Geoffrey Hodgson, and Marc Hafstead. I wish to single out Bruce Huber, who alone among my reviewers read the entire thing, front

Acknowledgments

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to back, and helped me with several important reorientations. Three anonymous reviewers of my book proposal helped me sharpen my focus in writing the book.

In addition to the generous institutional support of the Florida State University College of Law, I have been greatly aided throughout my years here by an outstanding professional library staff, which has always done first-rate work, and by a team led by Margaret Clark, which especially rose to the occasion in helping me complete this book. And I am indebted to Matt Gallaway at Cambridge University Press for his encouragement, responsiveness, and counsel, and Cameron Daddis for her shepherding this book through the production process. The sometimes meandering nature of my journey to completion of this book necessitated much advice from Matt and the Cambridge editorial staff.

My parents were alive at the completion of my first book but sadly are not for this one. I dedicate this book to their memory, because they were among the truest capitalists I have ever known. Although my father was an academic and my mother a math teacher, they were true capitalists in that they sought out and embraced both hardship and opportunity, finding their way in a world completely foreign to them, earning every single inch they ever gained in any endeavor.

On the other side of the generational divide, I am inspired every day to try and do better by my children, Katharine and Allen, and my wife, Deborah, who are my bedrock. During the COVID crisis, the four of us holed up together, always together (!) at home, for months and months and months. And months. But despite all that we missed out on life outside, I would never trade these past months for anything at all. Thank you for being my family.