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Look to Markets, not Bureaucrats for More Recycling: Legislative Waste Control Efforts Could Prove Wasteful

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By James P. McMahon

How can Colorado best move forward to a future of increased recycling? Can the government "plan" our recycling future, or should government instead focus on measures which facilitate recycling, but do not mandate its details? These perennial questions assume particular importance in considering Senate Bill 186, a proposal which intends to spur the growth of recycling in Colorado, but which could end up growing nothing more than a new and ineffective bureaucracy.

Two years ago, HB 91-1245 authorized a tax credit for companies investing in equipment used to convert recyclable materials into new products. The tax credit is scheduled to sunset on January 1, 1995. The tax credit approach was and continues to be as excellent strategy with a straightforward, temporary approach to achieving a fixed objective.

Unfortunately, little was done by any state agency to inform manufacturers or the world at large of the existence HB 91-1245. The credit remains a tool largely underutilized. Colorado will therefore, fail to experience the potential of this legislation to attract recycling businesses to Colorado.

Someone within state government needs to actively promote the state's objective to foster recycling markets. The Office of Business Development (OBD) is an appropriate agency.

In Brief

■ *Recycling in the United States has hit record levels in recent years. While market-based incentives can help drive recycling even higher, some environmentalists support increased bureaucratization and regulation as the best path to recycling.*

■ *Advocates of the bureaucratic approach will find much to like in Senate Bill 186, which would create mandatory quotas and timetables for recycling in Colorado.*

■ *While some recycling firms claim that only government-guaranteed supplies, coerced through quotas, will convince them to move to Colorado, the firms are simply asking for the same kind of guaranteed market that any firm would love to have — but shouldn't get in free-market society.*

■ *Likewise, SB 186's plans to have government handle negotiations and research for recycling companies inappropriately intrude government into private business.*

■ *Attracting recycling companies to our State doesn't require government micromanagement of the recycling industry. More effective promotion of the existing tax credit for recycling — also a feature of SB 186 — provides the upside of recycling without the downside of bureaucracy.*

The question remains as to the degree and type

of activity and the budget necessary to conduct the necessary tasks. Here is where SB 186 could stray toward excess.

The bill summary states that SB 186 “provides that the office [of business development] shall recruit recycling companies...provide business assistance to recycling companies, provide research and development...negotiate an increase in use of materials created by recycling companies by manufacturers, study the needs of manufacturing firms which use materials created by recycling companies, and participate in marketing promotions for expanding market opportunities.”

Despite the appearance of the word “market” in the summary, the list of proposed government tasks sounds uncomfortably like a strategy report from a central planning agency. In a free-market economy, the only valid activity of all those listed above is the first one.

The Office of Business Development could simply be charged to modify its current mission to actively promote Colorado as a place to do business for firms whose products incorporate recyclables into their feedstock (raw inputs). The OBD could aggressively target these firms, making known the availability of the tax credit and other advantages of locating in Colorado.

The other activities mentioned above are superfluous and may not result in any real gains above the first activity. Is it appropriate in an economy not based on government micromanagement and control for a state agency such as OBD to “provide research and development for” private recycling firms?

It is possible that a well-funded program such as that proposed in SB 186 could increase the growth of Colorado recycling markets faster than could a simple marketing program. Aggressive, expensive programs in Washington and New York states are modeled on this idea. But given Colorado’s current spending limitations and priorities, it may make more sense to watch the states that are shoveling large sums at the recycling industry, and see if such heavy state expenditures really pay off. If some of the New York and Washington “investment” (subsidy) policies prove not to be cost effective, then Colorado taxpayers will be saved the expense of duplicating the failures of Washington and New York.

Significantly, the promotion of Colorado as a business location would be consistent with the original stated objective and purpose of SB 186, without the problems of the excessive government involvement in business decisions layered onto SB 186 through amendments.

CREATE DEMAND FOR PRODUCT, NOT GOALS

While putting the state government in the business of conducting research and negotiations for private firms is clearly a large step away from free market principles, the bill takes an even larger step by creating quotas for diversion of the municipal waste stream from disposal. By establishing diversion quotas the state would encourage additional recovery of

recyclables, *not* by allowing market demand to grow, but by establishing arbitrary objectives which communities and private haulers must reach. The quotas will place a new expense on consumers, as recycling collectors place the cost of achieving these bureaucratic goals on their customers.

The purpose of attracting manufacturing firms which use recycled inputs is to increase the demand in Colorado for recyclables. As more and more firms using recyclables come to Colorado, and as existing Colorado companies increase their own use of recyclables, demand will increase, leading to an increase in the prices for recyclable goods, leading in turn to greater recycling. The whole process can occur through natural market mechanisms, with prices rising and falling according to supply and demand.

In contrast, a set of recycling quotas in Colorado will only place the cost on consumers and perversely act to reduce prices of recyclables by creating an oversupply within the region.

Some manufacturers will claim they need a guaranteed supply of materials in order to locate here. But such a claim is merely their predictable effort to take advantage of the naivete of recycling proponents. Any viable end user of recyclables can already calculate the volume of materials available here, the cost of recovering, transporting and processing those materials, and can then calculate the tax credit.

Companies using recycled inputs would — like most other companies — welcome a guaranteed supply created by government fiat. What those firms are really asking for, though, is an undervalued, or subsidized supply. Why should Colorado citizens be forced to provide, at their own expense, a guaranteed below-market supply of inputs for certain manufacturers?

WHEN WILL WE MEASURE EFFECTIVENESS?

Even if it were assumed that mandatory goals are superior to a free market, SB 186 may fail to set the goals appropriately because it relies on incorrect data to calculate the targeted recovery levels. The problem may be due to the government's historical reliance upon inaccurate recycling surveys provided by the anti-bottle bill lobby (which strangely enough calls itself "Colorado Recycling").

The recycling surveys provided by this industry group have little basis in reality. The surveys' intention is to create a picture of an already-effective recycling effort within Colorado, proving there is no need for a bottle bill. The truth is we don't know how much recycling is occurring.

One useful function for state government could be to fund an accurate survey of waste volumes and of current recycling levels. Only with an accurate measure of recycling can various recycling planning programs be evaluated. The cost of an accurate survey, which should be

conducted every year or two, would be about \$50,000.

A SENSIBLE PROPOSAL FOR PUBLIC INPUT

One good idea in SB 186 is the creation of a Citizens Solid Waste Advisory Committee to guide and oversee state recycling efforts. Such an committee could help eliminate wasteful spending by the Office of Energy Conservation and redirect such funds toward more productive research.

A Citizens Solid Waste Advisory Committee could focus first on deciding what the long term vision for solid waste in Colorado will be. Where will the state, local government, and the private sector fit in? For maximum effectiveness, it might be best to make sure that the Committee includes healthy representation of local government and private citizens with no vested interests, as a balance to the obvious business interests which should also be included.

TOO MUCH MONEY TOO FAST?

The proposed funding mechanism for SB 186 (a surcharge for each cubic yard of waste put in a landfill) is a valid one and has the potential to raise large sums. But consider the process that will evolve after of adoption of the bill in its current form.

During the first two years after passage, the only funding which is genuinely needed is for the Office of Business Development recruitment effort (say \$25,000 to 50,000 annually); minimal staffing and support for the Advisory Committee (perhaps another \$50,000 annually); the recycling survey discussed above (about \$50,000 every year or two); and administrative costs for the Department of Health.

Once the Advisory Committee has developed a vision statement and a clear understanding of the exact need for additional infrastructure, the landfill surcharge could be increased to meet the projected revenue needs. And once the Committee has determined the appropriate role for the state and local governments — assuming any increase above the current role — funding will be needed to provide state-level (and perhaps assist with local) staffing needs. Thus, the major items for needing funding lie in the future, but the funding mechanism provides large sums of money in the present. The availability of excessive funds *before* the need for infrastructure and major staffing could result in the temptation to spend the money on programs having little value.

OVERVIEW

While the basic intent of SB 186 is good, it contains assumptions which may not be valid. SB 186 would force on Colorado citizens more government sponsored or managed recycling programs, and these programs will cost much more than market-based programs. But many of the current problems with recycling have arisen because there is already too much government control of recycling, not too little.

It is true that Colorado lags behind the level of recycling activity in many states. That does not mean, however that Colorado should mimic the actions and mistakes of other states. After all, densely-populated New York, which is near densely-populated New Jersey, which is near densely-populated Pennsylvania, faces entirely different infrastructure and management issues than does Colorado — which has one large urban center in an area the size of non-Russian Europe.

Instead of rushing towards mandatory goals with no basis in realistic needs, would it not make more sense to conduct a survey of current recycling in Colorado, and then build a successful recovery system based on Colorado's unique needs? Given our state's relative isolation and Colorado's dominance within our region, Colorado can, to a great extent, lead the region in the direction of our choosing — if we take the time to choose carefully.

In the meantime, the recycling tax credit is already in place, and ready to help bring recycling companies to Colorado. The government has waited too long since passage of the tax credit and lost a great deal of momentum. During the last year, new recycling mills have been announced for Tucson, Yuma, Albuquerque, and a site in Nevada. Given the Front Range's population advantage over those locations, there is still an opportunity for Colorado to use the carrot of lower taxes — rather than the stick of central planning — to grow a stronger recycling industry in our state. While recycling has become popular, it is the rare state that has been able to discern the difference between expensive and effective programs.

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