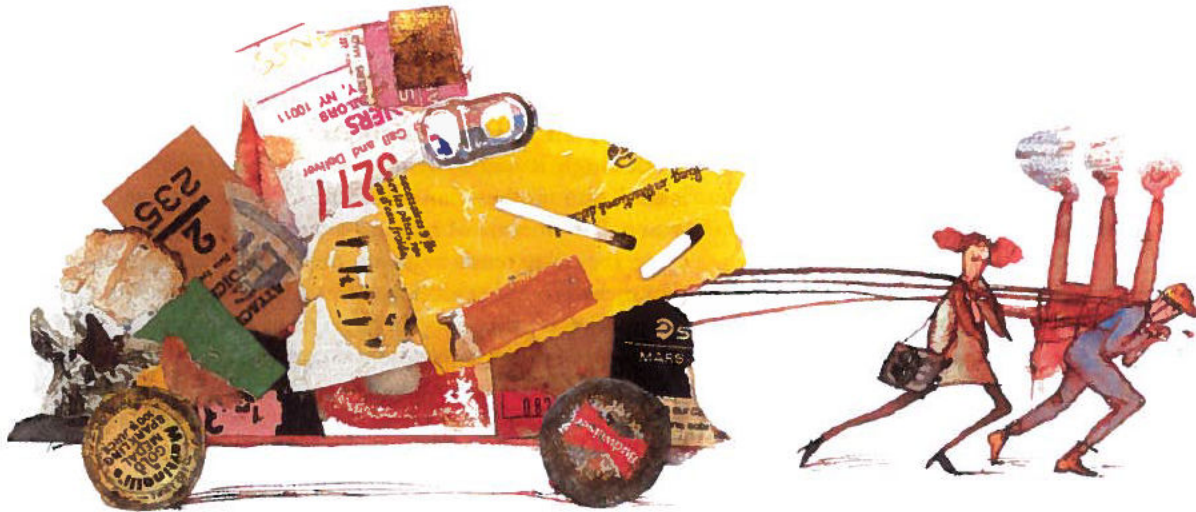


The management of garbage has for a century been largely a public responsibility, its cost borne by taxpayers. Now garbage disposal is busting budgets in communities across the country. There is a better way—one that would shift responsibility to manufacturers and consumers, and dramatically promote recycling in the process

HOW GARBAGE COULD MEET ITS MAKER

BY ALLEN HERSHKOWITZ



WASTE IS A GOOD MEASURE OF EFFICIENCY. The more waste generated by any activity, the less efficient it is. The less waste generated, the more efficient it is. America in 1993 is not a shining example of efficiency. Half of the municipal solid waste produced in all of the world's most industrialized countries is generated by people living in the United States. We should be concerned about this not because coping with large volumes of garbage is an insuperable problem. It isn't. But excessive garbage is a symptom of economic laxity and also a cause of great financial strain. Of all the wastes generated in the United States—mining wastes, agricultural wastes, oil and gas wastes, food-processing residues, demolition debris, hazardous wastes, incinerator ash, cement-kiln dust, and everything else—municipal solid waste (about two percent of the total) is essentially the only one managed at taxpayers' expense. The cost of managing this waste is increasing rapidly. Sanitation generally ranks behind only education and police and fire protection as a burden on municipal budgets. Last year routine garbage disposal cost U.S. taxpayers \$30 billion. The investment bankers at Morgan Stanley estimate that in 1995 we will spend \$45 billion to manage garbage. These staggering costs make continued taxpayer financing of garbage-disposal programs untenable.

At the heart of America's municipal-garbage problem is the fact that the consumer-products industry passes off to local governments—"externalizes," in the language of economists—the economic and environmental consequences of the waste its products create. Some would have us adopt a system that would charge consumers a per-bag fee for garbage disposal, a system that only indirectly—and only weakly—sends the right signals to manufacturers. This is not the way to go. Reducing the tax burden associated with the disposal of municipal solid waste will be possible only when responsibility for the recovery and use of its constituents is assigned to the manufacturers themselves—that is, when municipal-waste-management costs become *internal* to the cost and pricing of consumer goods. Indeed, the nation's economy would be well served if municipal waste was reclassified as manufacturer's waste—and the waste itself became the financial obligation of the consumer-products companies. This logic conforms with fundamental economic principles: those responsible for costs in a competitive context have an incentive to manage them efficiently. If manufacturers were responsible for the cost of garbage, they would have an incentive to reduce the amount of garbage they built into their products. As long as noncompetitive government agencies use tax dollars

ILLUSTRATION BY BLAIR THORNEY

to finance the disposal and recycling of garbage, consumer-products companies can choose to market a diamond ring in a refrigerator box and not worry about the consequences. The costs of managing municipal wastes and of recycling must become part of the cost of doing business.

HOW SUCH A SYSTEM MIGHT ACTUALLY WORK IS quite simple. Once government assigned the financial burden of both recyclable and nonrecyclable garbage to the "responsible companies," those companies would form or finance local or regional collection consortia. Each consortium would then calculate how much it would cost to set up a collection company run by the consortium, how much it would cost to contract out collection to existing private carters, and how much it would cost to finance an existing program, should one exist, operated by the public sector. In all cases the choice of a collection program would be based on straightforward cost criteria. This is not now the case with programs operated by public-works departments and financed by tax dollars.

If manufacturers were held responsible for garbage-management costs, they would be encouraged to reduce the amount of garbage their products generated and to design products compatible with recycling. Furthermore, the expense of recycling and solid-waste-management programs would ultimately be reflected in the price of consumer goods. Once the responsible companies figured out how much it would cost to collect and use recyclable materials and dispose of the rest, they would factor this cost into the price of each product they marketed. The cost of waste disposal would thereby be transferred from taxpayers to consumers. The logic here is crucial: as economic units, taxpayers and consumers are not identical. I am always a taxpayer. But I am only sometimes a consumer, and then consume only certain items. Economic logic dictates that my waste-disposal costs should reflect the amount of garbage I generate. The clumsy, politically determined assignment of tax dollars to public-works departments to collect and market recyclables fails to follow this logic. Making the price of collection and utilization internal to each product follows it precisely.

Assigning responsibility for garbage to manufacturers corrects the price signals sent to all the parties involved in waste generation: the consumer, the collector-processor, and the manufacturer. Consumers would become more aware of the cost of waste management and recycling because it would be incorporated into the price of every product. Collectors and processors of recyclables would get paid not on the basis of government-determined (and taxpayer-supplied) fees but on the basis of market forces. Manufacturers currently get incomplete market signals as to the relative costs of producing nonrecyclable and recyclable commodities, and no market signals at all regarding the relative costs of having to recycle something and in-

cinerating it or sending it to a landfill. If they were responsible for recycling and disposal, they would get market signals unequivocally.

IF ASSIGNING TO MANUFACTURERS THE COSTS OF managing and recycling our solid waste sounds far-fetched, consider this: it is already the law in Germany and the Netherlands, and will soon be the law in Sweden. Germany in 1991 assigned legal and financial responsibility to its manufacturing, distribution, and retail sectors for recovering and reusing at least 80 percent (by 1995) of the paper, plastic, glass, tin, cardboard, and compound materials used in packaging. Germany has since expanded the list of covered items to include newspapers and other nondurable products. The Dutch have adopted a similar policy, identifying and targeting twenty-nine products and packaging components for recovery and, if possible, reuse by manufacturers.

Although it was motivated primarily by skyrocketing landfill and incineration costs, the German ordinance has won a fair amount of support from industry, in part because recycling tends to lower the acquisition costs of certain materials. Considering the money and energy needed to refine crude petroleum into consumer products, and all the upstream environmental controls on doing so, the incentive to recover an already refined product for reuse is obvious. German papermaking concerns that rely entirely on the recycling of newsprint, magazines, and telephone books to produce office paper, stationery, and computer paper use far less energy per ton than do American paper companies that rely on virgin timber.

It may not be far-fetched to argue that the U.S. paper, plastics, and packaging industries are today where the U.S. auto industry was twenty years ago. At that time consumer demand for a fuel-efficient car was viewed as a fad by U.S. auto executives, who failed to invest in high-mileage cars. Responding to that same consumer interest, German and Japanese car manufacturers were simultaneously able to modernize their manufacturing facilities and capture a greater market share. Today there is an evolving consumer demand for packaging and nondurable goods made from recycled materials. And once again, the most competitive economies are responding to that demand by investing in new manufacturing facilities.

Can Americans bring themselves to manage their garbage the way the Germans and the Dutch do? Legislation that would begin shifting the burden from municipalities to manufacturers is being considered by Congress this year—and, not surprisingly, is being opposed by nearly every industry group in sight. Opposition is pointless. The growing strain that sanitation places on local budgets will one day force us in a frenzy down the very same path that we could today calmly and rationally choose. It is a path that is good for business, good for garbage disposal, and good for all the other services that governments will now be freer to provide. □