

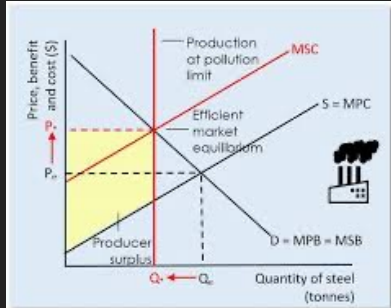


Figure 7: Negative externalities of steel production: $MSC > MPC$



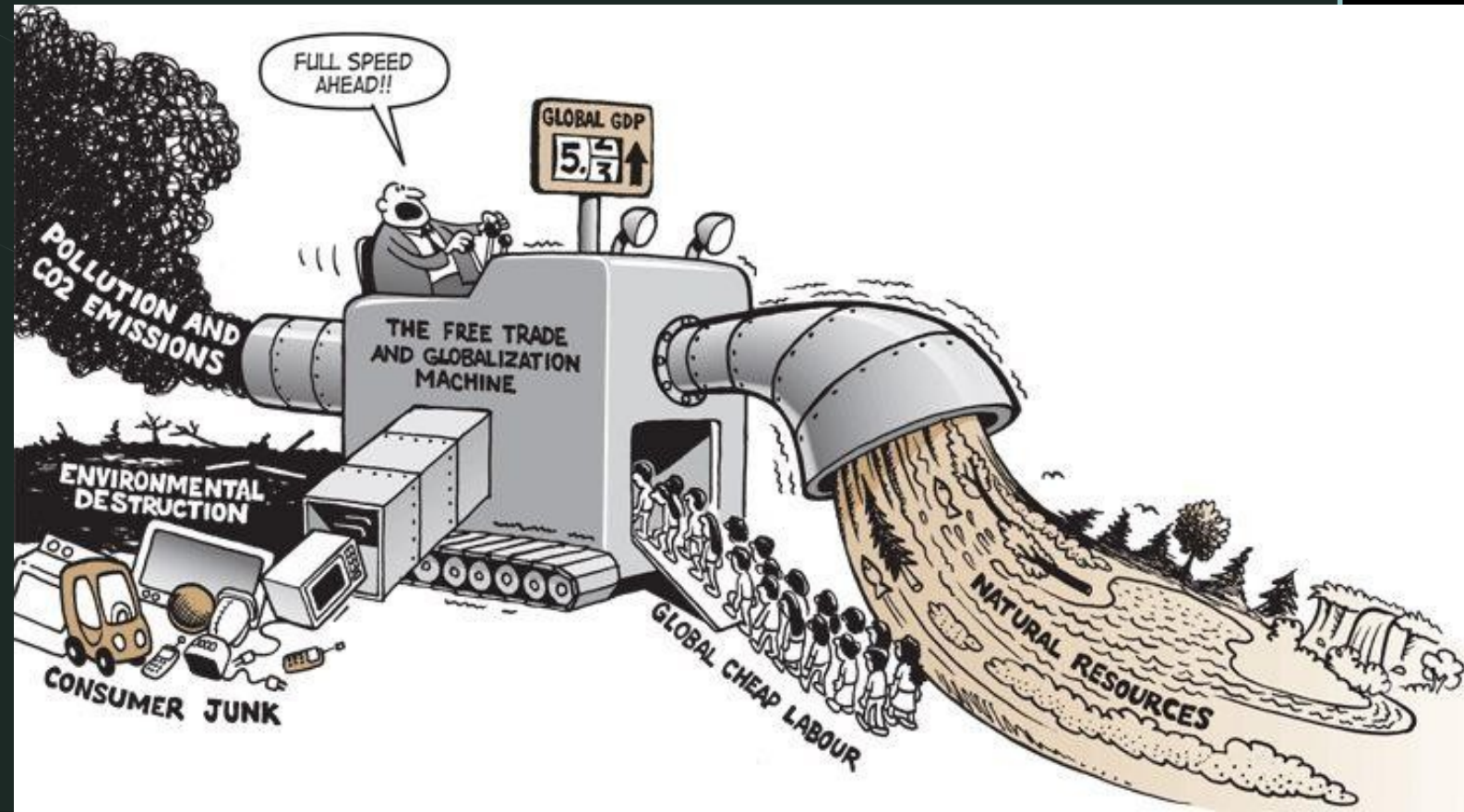
Reframing Exploitation Through the Economics of Externalities

By:



Do you ever feel like companies profit by quietly handing the bill to others?

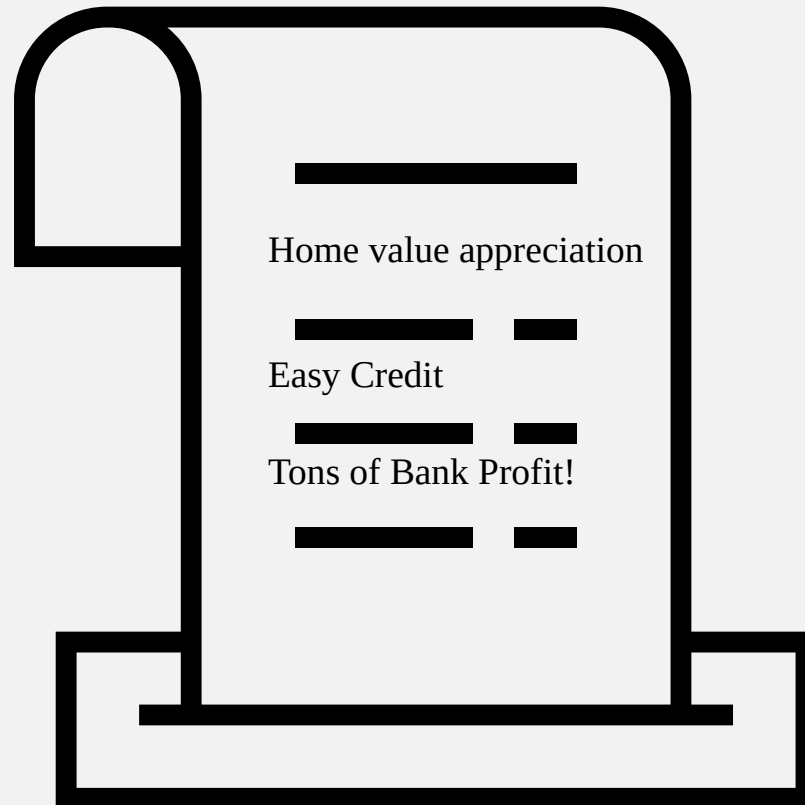
- Well, you're in luck! So do economists!
- That's the very purpose behind the term "Externalities"



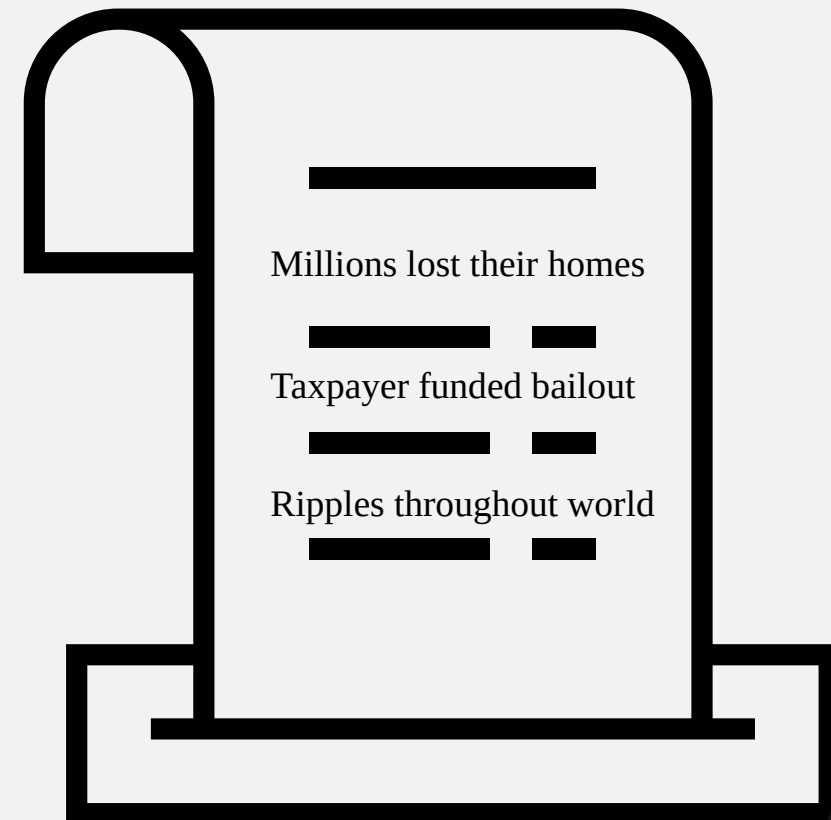
2008 FINANCIAL CRISIS



The Market Receipt



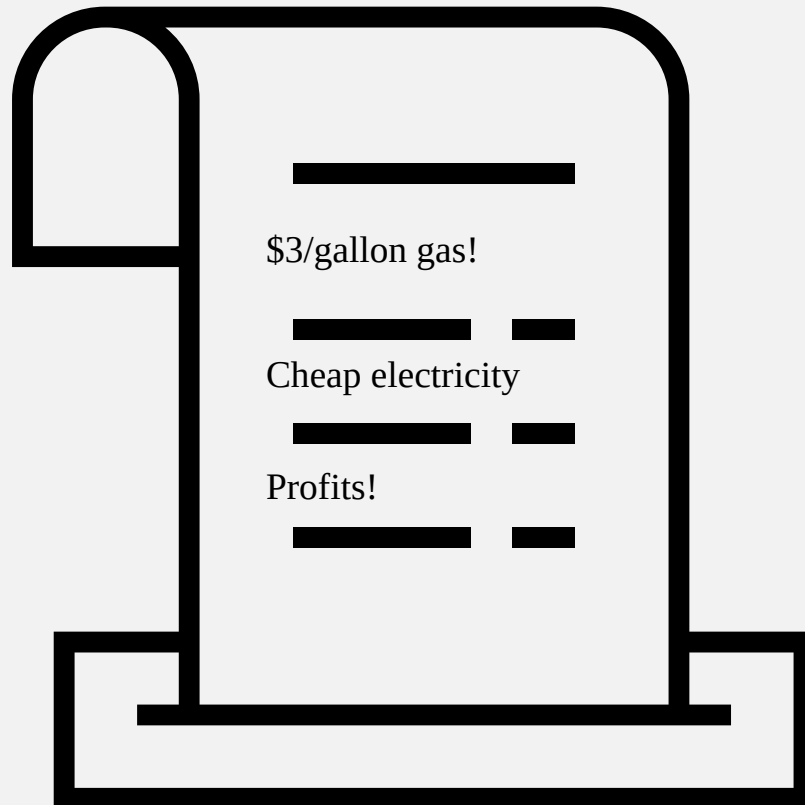
The Hidden Receipt – Social Costs



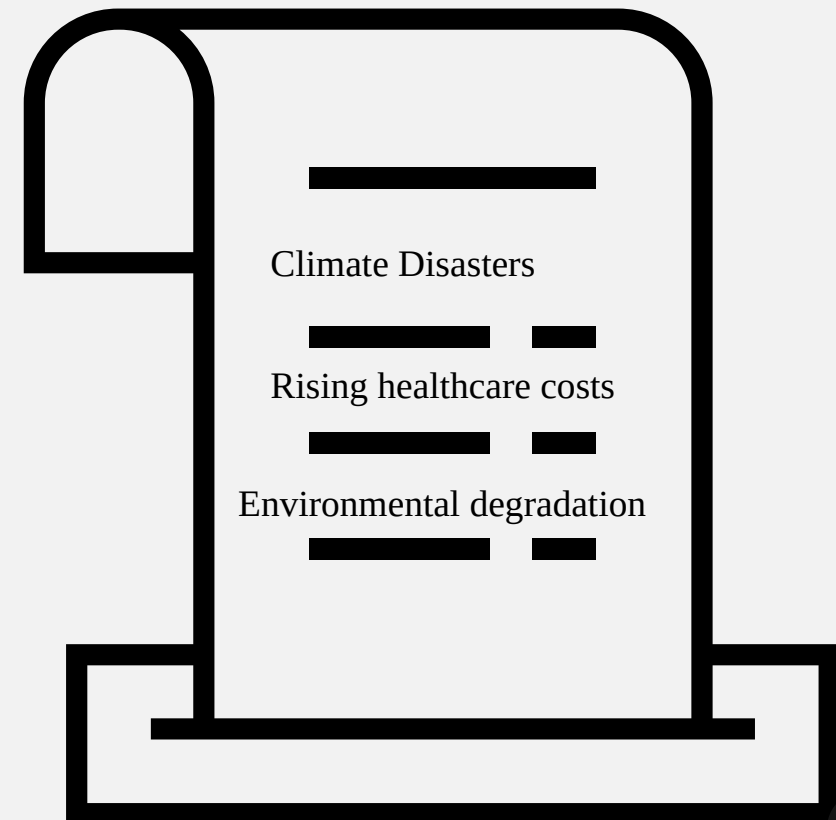
FOSSIL FUEL COMPANIES



The Market Receipt



The Hidden Receipt – Social Costs



FAST FASHION!

FOREVER 21 **H&M**

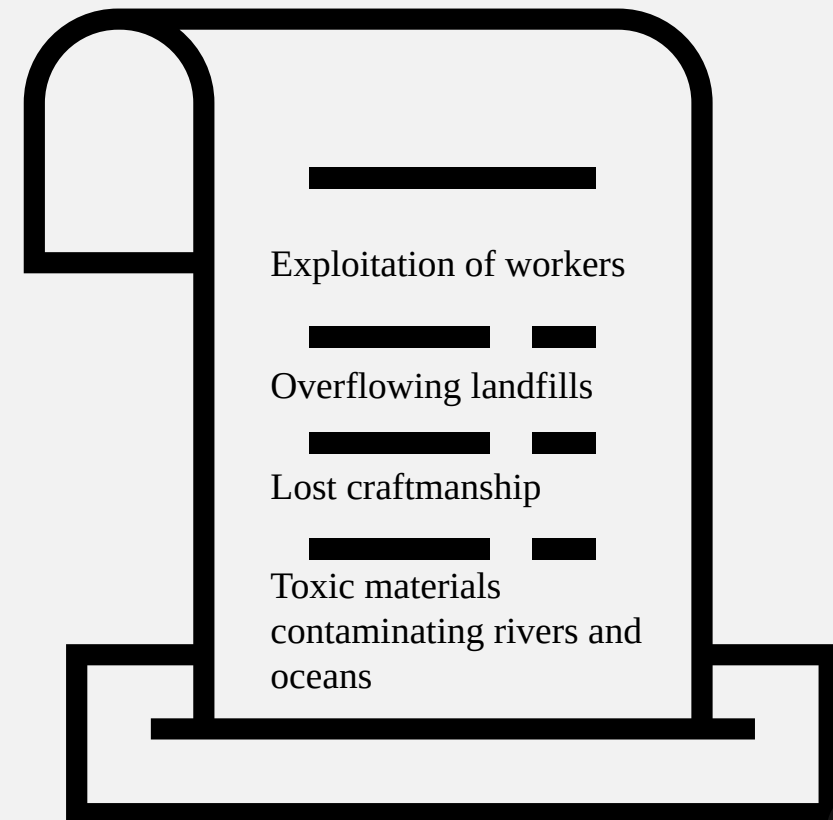


aerie boohoo
ZARA SHEIN

The Market Receipt



The Hidden Receipt – Social Costs



Presentation Roadmap

- What is an Externality?
- Externality Framework
- Examples
 - Slavery
 - Immigrant Labor
 - Housing Discrimination
 - Mass Incarceration
- Internalizing the Externality (What Civil Rights Law *Should* do)
- Q&A

Who Pays The Price? Reframing Exploitation Through the Economics of Externalities

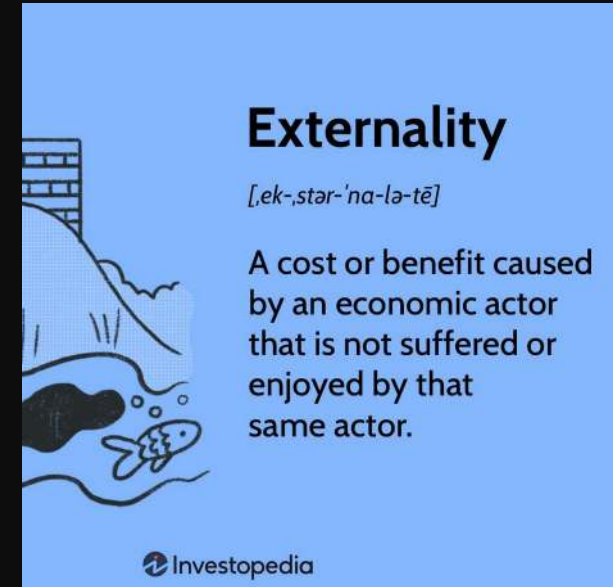
Brandon Voss

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What is an Externality?

- Economic Assumption: The costs of a good or service should be INCLUSIVE of all costs.
- The reality: Many costs are hidden
- The classic example: Pollution
 - A creative remedy that internalized the damage (Cap and Trade)
- They can be both positive and negative, but my focus is negative externalities



Proposed Framework

- **Step 1:** Where is an injustice happening?
- **Step 2:** Who is benefitting from the injustice? What laws permit it? (what incentives are in place)
- **Step 3:** Who bears the cost of the injustice? Is it the producer of the injustice?
 - If no to Step 3, then we have an externality!
- **Step 4:** What mechanisms can internalize this externality?



Externalities in Slavery

- Step 1: Where is an injustice happening?
 - Slaves were subjected to forced labor and terrible treatment
- Step 2: Who is benefitting from the injustice? What laws permit it?
 - Slaveowners and related industries benefitted
 - Slave codes and other laws permitted this
- Step 3: Who bears the cost of the injustice? Is it the producer of the injustice?
 - If no to Step 3, then we have an externality!
 - Slaves bore the cost physically, psychologically, economically
 - Therefore, this is an externalization of a cost that should have been borne by the slavers
- Step 4: What mechanisms can internalize this externality?
 - Getting rid of slavery forced the slaveowners to pay for labor moving forward, a way to internalize the cost
 - Reparations are discussed to make up for this previous private benefit



Externalities in Immigrant Labor

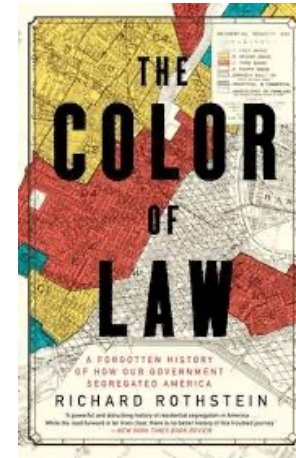
- Step 1: Where is an injustice happening?
 - Immigrants are frequently exploited for cheap labor and are targeted by federal agencies
- Step 2: Who is benefitting from the injustice? What laws permit it?
 - Employers of immigrants get to pay subsistence wages and exert extreme control over immigrant workers
- Step 3: Who bears the cost of the injustice? Is it the producer of the injustice?
 - If no to Step 3, then we have an externality!
 - Employers of immigrants have little incentive to act well
 - Immigrants are retaliated against frequently because they are less likely to report abuse
 - Since Immigrants bear the cost of the employers private benefit, this is another externality
- Step 4: What mechanisms can internalize this externality?
 - Enhance immigrant worker protections
 - Create incentives for employers to treat immigrant workers fairly, or avenues for the workers to retaliate and not face deportation



Externalities in Housing Discrimination



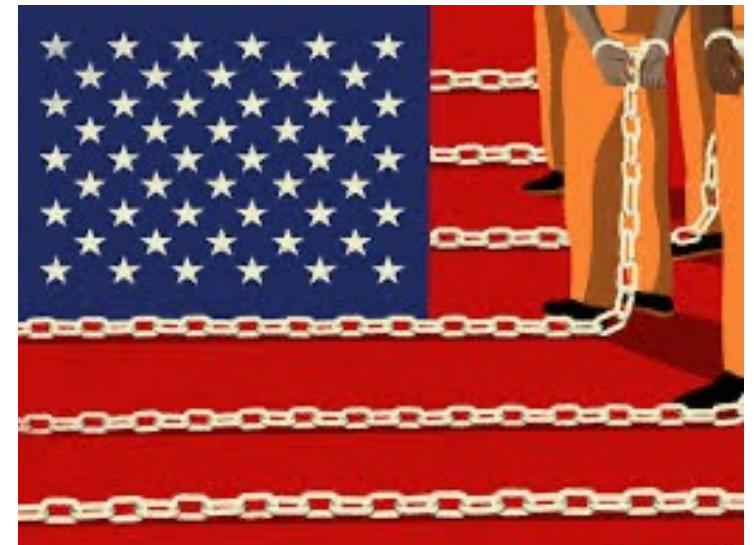
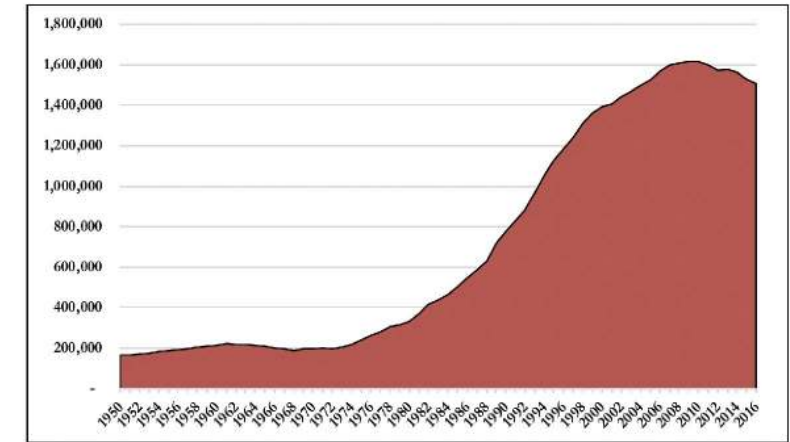
- Step 1: Where is an injustice happening?
 - Redlining, restrictive covenants, preferential lending
- Step 2: Who is benefitting from the injustice? What laws permit it?
 - Discriminating Homeowners get higher home appreciation, better school districts, more tax funding
- Step 3: Who bears the cost of the injustice? Is it the producer of the injustice?
 - If no to Step 3, then we have an externality!
 - Those being discriminated against pay the cost through lower home valuations, more crime, worse access to schools, difficulty in obtaining a home
- Step 4: What mechanisms can internalize this externality?
 - FHA was effective at internalizing this externality
 - An example of a successful internalization
 - BUT... impacts remain today as many people were barred from generational wealth in the form of home equity



Externalities in Mass Incarceration

- Step 1: Where is an injustice happening?
 - The U.S. carceral state houses 25% of the worlds prisoners
 - U.S. punitive codes are extreme and lend to a high prison population
- Step 2: Who is benefitting from the injustice? What laws permit it?
 - Private prison companies, prison unions, prison executives
 - State laws create agreements with prisons to "fill beds" at prisons ...
- Step 3: Who bears the cost of the injustice? Is it the producer of the injustice?
 - If no to Step 3, then we have an externality!
 - The imprisoned, their families, and their communities all bear this cost
 - Many studies show the long term and wide spread negative impact of being incarcerated and having a family member go through the prison system
- Step 4: What mechanisms can internalize this externality?
 - Get rid of "fill the bed" incentives
 - Consider the social cost of incarceration as a deterrent to harsh policies

Prison System Growth (1950-2016)



Internalizing Externalities

- There are many success stories
 - Pollution – cap and trade, restrictive regulations, carbon control mandates
 - Slavery – Abolishing slavery, Reconstruction Amendments
 - Housing Discrimination – FHA, Civil Rights Act, Voting Rights Act
 - Immigrant Labor -
- But there are many places to further internalize social costs
 - Mass incarceration – eliminate ‘fill bed’ incentives, soften maximum sentencing requirements
 - Immigrant Labor – change incentives so that employers bear more of the cost
 - Slavery – while it ended, generations of African Americans still feel impacts
 - Room for a real reparations conversation?
 - Housing Discrimination – informal segregation persists today, leading to the effective equivalent of what we had before

Q&A

- Places for clarification?
- What other areas can we use this approach?
- Other questions?

