Trouble in Happyville

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TROUBLE IN HAPPYVILLE

Paul R. Portney

Introduction

About a year ago, I circulated the following hypothetical problem to my colleagues at Resources for the Future, economists and noneconomists alike. Their responses were quite interesting and, in some cases, surprising. I thought it might be interesting to try the experiment on a larger and more diverse group of readers. Several referees mercifully agreed and I hereby invite you to ponder the following.

Is It Safe to Drink the Water?

You have a problem. You are Director of Environmental Protection in Happyville, a community of 1000 adults. The drinking water supply in Happyville is contaminated by a naturally occurring substance that each and every resident believes may be responsible for the above-average cancer rate observed there. So concerned are they that they insist you put in place a very expensive treatment system to remove the contaminant. Moreover, you know for a fact that each and every resident is truly willing to pay $1000 each year for the removal of the contaminant.

The problem is this. You have asked the top ten risk assessors in the world to test the contaminant for carcinogenicity. To a person, these risk assessors—including several who work for the activist group, Campaign Against Environmental Cancer—find that the substance tests negative for carcinogenicity, even at much higher doses than those received by the residents of Happyville. These ten risk assessors tell you that while one could never prove that the substance is harmless, they would each stake their professional reputations on its being so. You have repeatedly and skillfully communicated this to the Happyville citizenry, but because of a deep-seated skepticism of all government officials, they remain completely unconvinced and truly frightened—still willing, that is, to fork over $1000 per person per year for water purification.

The Questions

First, what are the annual benefits of removing the contaminant from the Happyville drinking water system? (For you noneconomists, benefits are generally measured by willingness-to-pay). Are they $1,000,000? Zero? Some number in between? This is not a trick question, nor should you read more into it than I intend. I am simply interested in knowing what you think the "benefits" side of the benefit–cost ledger should look like.

Second, suppose that: (1) the contaminant was not naturally occurring (as hypothesized above), but rather the result of industrial contamination; (2) our estimate of $1000 per person for annual willingness-to-pay for purification

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was based on a state-of-the-art contingent valuation study (a survey designed to elicit individuals' valuations of environmental programs); and (3) a lawsuit had been brought against the source of the contamination.

If your answer to the first question was $1,000,000 in annual benefits, would you be willing to support a judgment of $1,000,000 in annual damages against that source, again assuming that the world's best risk assessors told you they could find no evidence of carcinogenicity?

Your Verdict, Please

Send me your responses at the address listed at the start of the "Insights" section. Please try to keep these responses brief; while the issues I raise are complicated ones, it will be impossible for me to plow through, much less summarize neatly, a large number of long answers. You may respond anonymously or with your name; I would prefer that you identify your disciplinary training even if you prefer not to give your name. All responses will be kept confidential, of course, although I do intend in a future issue to summarize the responses I get.

Thanks very much from the residents of Happyville!

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