

Ephemeral Externalities

The textbook notion of externalities is expansive. Potentially totalitarian, in fact. Suppose, for example, that you dislike seeing Bahais. The very fact that you have these bigoted feelings instantly implies that Bahais “impose a negative externality” on you purely by appearing in your field of view.

Indeed, an anti-Bahai zealot could dislike the very *existence* of Bahais. If so, this implies that Bahais “impose a negative externality” merely by being in the world. If you think this is an absurd overextension of the concept, the notion of “existence externalities” is already well-established in environmental econ. If you despoil the natural beauty of Alaska with an oil pipeline, you don’t just impose negative externalities on those who see the pipeline. You impose negative externalities on everyone who dislikes the *idea* of marring Alaska’s natural beauty.

While the concept of externalities is potentially totalitarian, it need not be so in practice. It all depends on how *strongly* human beings refuse to mind their own business. Someone might say “I can’t stand Bahais,” yet be quite tolerant in practice. Actions speak louder than words, as I keep insisting. If a self-identified Bahai-hater willingly shops in a Bahai-owned store in order to save 2% on his grocery bill, we discover that his negative externality is actually minimal.

In the past, I’ve invoked the “actions speak louder than words” maxim to dismiss a wide range of popular complaints. If you really hated Los Angeles, you’d move to another city. If you really hated the cultural effects of immigration, you’d move to a low-immigration area of the country. Yes, a few people actually do move. Perhaps the negative externalities they endure are as bad as they state. Yet the rest of the complainers are clearly exaggerating.

Suppose, however, that a person demonstrably pays a large premium to avoid Bahais. The first month, he shells out \$200 on Bahai-avoidance. Even so, it is premature to declare that he’ll pay \$2400 to avoid Bahais for a full year. Why? Because of hedonic adaptation; or in laymen’s terms, because *people get used to stuff*. In the real world, that which initially horrifies you tends to gradually loses its sting. So even if seeing Bahais inflicts a \$200 negative externality the first month, that could easily fall to \$100 by the third month, \$50 by the sixth month, and \$5 by the twelfth month.

Hedonic adaptation is *especially* likely if the negative externality is inert, and almost certain if the negative externality is unobserved. If Bahais actually *do* something bad to you day after day, you might resent them day after day. If, however, the Bahais are just doing their own thing, even an anti-Bahai bigot will struggle to maintain his ire as he walks

past. And if the anti-Bahai bigot doesn't personally encounter any Bahais, maintaining his outrage at their very existence is nigh-impossible. Out of sight, out of mind.

Real-world example: When I was young, many people vocally expressed antipathy for gays. In fact, people *presumed* that everyone who wasn't gay would share their antipathy. In this social environment, coming out of the closet created negative externalities. As more and more people came out of the closet, however, the strength of the antipathy eroded. People gradually got used to being around gays. As a result, the negative externality gradually went away.

Nowadays, I bet that even self-conscious homophobes feel less aversion to gays than the *average* person in 1982. When you encounter gays all the time, you get accustomed to them – and the antipathy evaporates. The last forty years effectively gave the country's homophobes a heavy dose of exposure therapy. As usual, the exposure therapy worked.

Does this mean that we can ignore all negative externalities because we'll "just get used to them"? No, that's too strong. What it means is that before taking expensive (and intrusive!) efforts to mitigate externalities, we can and should ask, "Is this the kind of externality people will get used to if we do nothing?"