

Do all the Resource problems in the West begin in the East?

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Abstract: Economics can make good policy better and bad policy go away—a message often constrained by the political realities surrounding federal resource policy toward the West. This essay responds to these challenges to economic reasoning based on the lessons learned after a stay at the Council of Economic Advisers. My goal is to help make apolitical economists more effective advocates of efficiency.

Keywords: Resource policy, efficiency, West

One of the things Westerners should ponder, but generally do not, is their relation to and attitude toward the federal presence. The bureaus administering all the empty space that gives Westerners much of their outdoor pleasure and many of their special privileges and a lot of their pride and self-image are frequently resented, resisted, or manipulated by those who benefit economically from them but would like to benefit more, and are generally take for granted by the general public.

Wallace Stegner, 1992, *Where the Bluebird sings to the Lemonade Springs*

1.

Do all the resource problems in the West begin in the East? This question nagged at me throughout my 1997 stay as the senior economist for environmental and natural resource policy at the Council of Economic Advisers in the White House. By the West I mean the Interior rural West; by the East I mean Washington, D.C.² As I witnessed more and more of the nature of real-time federal policy-making in the Clinton-Gore Administration, I wondered more and more about the impact of the well-intentioned and often half-baked zeal of advocates for new social regulations. All this effort was especially troubling in light of the Administration's revealed strategy of pursuing a centralized environmental agenda that is more unyielding toward the West so as to secure support on the Coasts. Imposing more federal will on the West through tougher

administrative actions gather more bi-coastal green votes. And this struggle continues today. Western senators keep trying to free some form of the centralized management imposed by the East by attaching pro-development riders to different appropriation bills.

Economics can make good resource policy better and bad policy go away. Yet those policymakers who might agree with these ends often object to economic analysis as the means. This essay revisits what I learned about the non-economist's assertions about our message as economists, and our role as messengers—assertions that when left unanswered lessen our efficacy as advocates of a better world, and hurt our standing in federal resource policy debates. Since most of you know more about traditional western resource issues such as water rights, grazing, mining, timber than me, I focus on new problems being pushed in Washington, D.C. that straddle the traditional western concerns—such as climate change, risks to children's welfare, revamped endangered species protection.³ My goal is to relay the lessons I learned to others interested in being more effective in policy debates about Western resources.

2.

The depths of western discontent for new social regulation, as exemplified by say, the Sagebrush rebellion in the early 1980s, finally become concrete for me during my time at the CEA.⁴ New rules pushed in Washington, D.C. in the name of morality triggered my sense of wonder—I wondered why economics seems to have so minimal impact on rational thinking about how these new rules would affect the country in general and the West in particular? I wondered if all the pundits who push for states rights and local control were correct? Was this indeed the Century of the State, in which the

federal leviathan ruling the west has left us worse off than if we had just taken care of ourselves?⁵ Why are private expenditures to comply with social regulation exceeding \$200 billion and rising; large enough now that Robert Litan of the Brookings Institute points out that “federal regulation now costs consumers more than total discretionary government spending costs taxpayers.”⁶

By now I was really confused. As you probably do not know, three years ago I returned to my *alma mater*, Wyoming, recently dubbed by the *Economist* as the most conservative socialist state in the Union—a most curious mix.⁷ My colleague Tom Crocker refers to this split personality in the West as “socialism for me, free enterprise for you.” I know this attitude partly from growing up in northern Minnesota, another land of the well-subsidized classical liberal. So even though I promote individualism, demand freedom, publish in *Public Choice*, I also applaud the role of the federal government in helping my family out of the backwoods to the blackboard. I was as schizophrenic as the rest of the West—clamoring for more control over setting my own standards for social regulation, but still wanting to preserve the hard-won resources subsidies that lined my pockets.

Pre-CEA, it seemed to me common sense waxed and waned in Washington, D.C., but that bad ideas would collapse under the deadweight losses they created more often than not. Professionals were in charge and there was no need for me to worry about whether the West (or me) had a split personality or not. That left me free to ponder the significance of third derivatives of probability functions and third order stochastic dominance instead of the happenings in Washington, D.C. I could continue in my role as a middlebrow theorist who loved the lab of experimental economics—trained and

proud to be an apolitical neoclassical economist. And as such, I accepted as a necessary fiction rather than as literal truth our confining orthodoxy of maximization and equilibrium to capture the interactions of intelligent self-interested individuals.

Post-CEA, however, is a different story. Don't get me wrong—I still treasure the formalism of theory and behavior in the lab. But now I understand that some people see our orthodoxy as not just simply confining, but as downright pre-historic.⁸ Being called a dinosaur to my face drove that point home fairly well. And I see that my inability to communicate key economic concepts effectively left the floor open for wily arguments that more federal usurping of state and local control was desirable even if costs exceeded benefits. Because after all, cost-benefit analysis is just naked self-interested dressed up in banker's pajamas, isn't it?

For instance, the Environmental Protection Agency (EPA) recently estimated the retrospective costs and benefits of the Clean Air Act Amendments (CAAA) between 1970-1990. Section 812 requires the EPA to assess periodically how the Clean Air Act has affected “public health, economy, and environment of the United States,” and to report these findings to Congress (EPA, 1997). Not surprisingly, this self-evaluation found that federal regulatory actions created substantial net benefits from lower criteria air pollutants. Thus the EPA inspector general's recent pronouncement of widespread failures by state and local officials to police the nation's clean air is a bit unexpected (e.g., Cushman, 1998). The mixed-messages send the signal that although the EPA is doing good, it could do even better if more environmental affairs were handled at the federal, rather than the state or local level.

It is news like this that makes me think economics is still a speed bump on the road of bad ideas. And it causes me to reflect back on whether the arguments leveled at economics and economists are accurate, and why my counter-arguments at the CEA were less than persuasive. How restrictive is our orthodoxy, and why do we have such a hard time changing the minds of critics who consider economics "not so much dismal as half-witted" (attributed to Sir Crispin Tickell in *The Economist*)?⁹ This essay confronts what I see as my own over-optimism in the power of economics. Some points might seem trivial, easily remedied by anyone on a debating team. Others might hit a nerve, suggesting that a bit more self-awareness of what outsiders are really saying to us economists might be a good thing. If we want to hone our skill as advocates for rules that give people in the West the chance to create their own luck, we need to revisit and reemphasize the sophisticated informality that can help make that happen.

3.

In policy debates in Washington, D.C., economists are tagged as lemon-suckers—those who could find fault in a funhouse. Economists are the but-sayers who point out the reality of scarcity, a fact intensely disliked by ideologues and moralists. These critics make assertions about the limits of the economist's choice of tools to cast doubt on the message; and they make assertions about the economist's toolbox to cast doubt on the messenger. I learned to appreciate from my experience that an unanswered assertion sticks, regardless of its truthfulness. Below are nine allegations made, explicit and implicit, in resource policy debates, and my responses. It would have been better to have come up with these retorts sooner, like during the policy meetings. But quick responses

where not always forthcoming given my training in the classic Nordic school of debate in which one makes a pronouncement, expects acquiescence, ignores faultfinding until it stares him down, and then responds with a "but...." I hope now that these responses to common complaints will help better prepare those economists interested in becoming less apolitical.

- *Economics always overestimate the costs of federal regulation. Thus it is likely that the estimated impacts on the US economy of the Kyoto climate change treaty are simply too high.* Not so fast. Ray Squitieri (1998) has compiled the actual evidence, and he finds that costs just as often on the low side. For instance, predictions straddle actual costs for asbestos, coke ovens, vinyl chloride regulation; numerous unpredicted changes in technology and the economy occurred to lower the cost of CFCs, cotton dust, SO₂ control; recall that the National Ambient Air Quality Standards were estimated to be achieved by 1977, but these standards are still not attained in 75 areas with 75 million people. Sure economist predicted the control costs for sulfur dioxide could be \$1500 per ton, when today a ton actually costs \$100. Good reasons exist as for this gap—unanticipated technology breakthroughs, railroad deregulation, many permits were given out for free. Costs are not systematically biased upward. This implies that the cost estimates to implement the Kyoto treaty could be low. Recall Kyoto calls for industrial nations to reduce their carbon emissions by about seven percent below 1990 levels by the period 2008-2012, without the help of the developing nations, whose emissions are projected to surpass today's industrial nations within the next three or four decades. Imagine turning a battleship on a dime

with a third of the crew on board, and you get a good feel for the potential costs of the Kyoto climate change treaty.¹⁰

- *Economics downplays risks to children's health and welfare. Just look at the new federal air pollution standards for ozone and particulate matter. President Clinton supported the tighter standards even though the costs might have exceeded the benefits, because he wants kids to be healthy. We're for kids—whose side are you on? Of course economics is not for just "kids"—we are for kids with food in their bellies, clothing on their backs, roofs over their heads. Economics promotes these ends through the creation of wealth. So since everyone is for kids, what is the problem? At issue is how the insights from economics about the direct and indirect links between wealth and health can be more clearly communicated without seeming callous. Pointing out that the conspicuous neglect of behavioral rules can inflate the costs of regulation at no gain in kids' health does not sell politically if the route is too indirect. The appearance of helping kids even at the price of taking aid away in reality through more regulation will still be more appealing to policymakers than the roundabout way to wealth through more trade. This is not to say economics cannot improve on how we model risks to kids. Economics would benefit from more age heterogeneity in our models since kids rarely have economic standing even when they have legal standing. Kids deserve special attention, and that does not necessarily imply more federal control over state and local resources policies.*

- *Economics oversells individualism and exaggerates the ability of locals to solve their own problems in the West. After all if locals are so good at solving their own problems why were all those federal Acts like the Endangered Species Act and the National Environmental Policy Act enacted in the 1970s? But over the last decade we have witnessed that the costs imposed by such supralocal intervention into private property has triggered a devolution of power back to more local levels. The ESA, for instances, is one of the most extreme forms of federal intervention, the quintessential prohibitive policy. In its' shadow, people have turned to cooperative conflict-resolution mechanisms that involve mainly local stakeholders. These mechanisms have flourished despite traditional environmentalists who remain locked into federal intervention because of their skepticism that locals will neglect local habitat. New field experiments in Coase-style bargaining have emerged in which local people are engaged in the communication, education, and cooperation in the ESA and NEPA processes.¹¹ This trend will likely continue. Economics has not exaggerated the role of the local person, the individual, in helping to define and implement rules we can all live with to deal with resource issues in the West.*
- *Economics is too pessimistic about how people can adapt their preferences to new technologies to solve resource policy questions such as climate change in which engineering studies suggest that from 20 to 25 percent of existing emissions in the greenhouses gases that cause climate change could be eliminated at no additional costs. In effect, economists take a creationist view toward preferences. Sure people will often do the right thing, often without having to be prodded by a change in*

relative prices. A better-informed US populace could achieve the Kyoto targets by changing their minds about the risks of climate change. Economists are skeptical of these arguments because we usually see people as people, whose preferences are similar across the ages and around the world. When the evidence says that people prefer conventional appliances given current prices, we believe it. We also believe there is a fundamental distinction between people's preferences and a true market failure. The market does not fail when people focus on immediate outlays even when given future cost savings estimates, and when they are wary about claimed energy savings that might go unrealized. Economists see the most effective way to curb excessive energy consumption is to raise its price to reflect the harmful effects on the environment of burning fossil fuels. Sure economics can benefit from understanding the origin of preferences, but for the most part preferences are taken as stable given the exchange institution in which they operate.

- *Economics downplays the discontinuities and disequilibria of nature.* There is cogency here in that resource policy discussions eventually reach the point in which the economist is asked whether he or she has accounted for the likelihood that a change in the ecosystem will be discontinuous—a catastrophe. Most economists acknowledge but do not always incorporate into their models the potential for discontinuous risks, like a sudden shift in the gulf stream due to climate change, or an unraveling of the web of life due to the loss of some keystone species. But does this mean that society is on the cusp of catastrophe? Not necessarily—the doom sayers have a terrible track record. As revealed in numerous risk perception studies, people

commonly overestimate the chance that they will suffer from a low probability/high severity event, e.g., a nuclear power accident (see for example Viscusi, 1992). When the outcome is potentially very bad, people inflate the chance that the outcome will be realized. This tendency transfers to policymakers as well. They overestimate the risk themselves and then multiply this impact by then playing off the same tendency in the general public. For example, resource policies toward the storage of nuclear waste in the West can conjure up images of a fortified storage facility containing sanitized, air-tight receptacles, or an abandoned dump site teeming with rusty, leaking vats of toxic material. The images induce vivid perceptions, both of which can persist in a community, causing considerable disagreement about how to regulate the risk. Policymakers must act as the arbiters that help reconcile the perceptions, not inflame the differences.

- *Economics has a built-in bias toward the status quo business world, and acts as a mercenary for the corporate bottom line.* Not true, but economists only have themselves to blame for this perception that we are good at telling some people's stories but not others. Economists have allowed the general media to portray economics as synonymous with financial and commercial concerns. When a person hears about the local promotion of "economic development" in the West it sounds as though economists are only concerned with financial and commercial development. But economics worries as much about Main street as it does about Wall street. We need to better communicate the broader perspective of welfare economics to the general public. For example, appealing to economics does not imply that legions of

endangered and threatened species must be sacrificed. Numerous economic reasons exist for preservation: some species and habitats provide useful goods and services, others are valued aesthetically, and even seemingly low-value species are linked to high-value species through ecosystem interactions. People need to understand that economics is not just concerned with timber sales from chain-sawing through critical habitat.

- *Economists who promote cost-benefit analysis fail the elementary political test of persuasion because such efforts increase the scale of political controversy by entrenching conflict by venturing to put values on losses inconsolable by money.* Not so fast. Most thinking people now agree with Hayek's forceful point that the market is the most powerful tool ever "discovered" by humans to integrate efficiently the diffuse set of knowledge that exists throughout the economy. Market prices reflect both the laws of man and the laws of nature. Like language no one invented the market, but it has emerged as promoter of more rational choices on how to allocate scarce resources. Cost-benefit analysis simply takes this rationale one step further by collecting and organizing diffuse knowledge into a common framework for goods and services often left unvalued by the market. If one agrees that the market works as a knowledge magnet that facilitates rational choice and cooperation, it is self-defeating to argue against cost-benefit analysis since it works under the same principle.
- *Economists need to realize that science drives policy, morality sets policy. Economics is most useful when it sticks to estimating the costs to implement the policy selected.*

This is wrong. Economists have actually turned over too much authority to the natural sciences in resource policy decisions. E.O. Wilson (1998) claimed that economics is largely irrelevant to resources problems because we avoid the complexities of the "foundation sciences" such as psychology and biology. But this sword cuts both ways. The circle of environmental knowledge is also broken when ecological and biological models ignore the impact that the economic system has on the natural system. Natural science alone cannot accurately answer the question about whether we confront an environment problem or not. Economics contributes to the answers because relative market prices and wealth play a vital role in establishing the threshold that says whether an environmental problem is a real problem. These so-called foundation sciences need to connect mind to matter by including economic parameters in their core frameworks. Economists have a responsibility to correct this omission in debates of environmental policy. We have an obligation to help define the environmental thresholds of human and ecosystem health that underpin policy, rather than settle for a secondary role. We need to move our feet further under the table where resource policy and research are defined.

How do these assertions-and-responses speak to the title of this essay? Will the West suffer because economists are misunderstood in the East? Sure. Is there something we can do about it? You bet. We can continue to demonstrate and communicate that behavior matters more to resource policy than most people think. With additional empirical trade-off analysis that sharpens the economic viewpoint, we can increase the costs to policymakers who neglect or downplay the importance of behavior in resource

policy. Policymakers can benefit from clean evidence that reveals how resource policy could be less expensive when accounting for relevant economic behavior.

But economics offers a message that tilts the scale toward the conservative side of Western schizophrenia, a side that the West might not really want despite the rhetoric. People in the West have two trails to choose from: The *pull-yourself-up-by-your-bootstraps* path in which the lone cowboy self-image is a reality, and the *cowboy-with-complex-preferences -with-his-hand-out* path in which the West grudgingly accepts intervention for goodies. On the *lone cowboy* trail, economics says go ahead and blame the East for ignoring sound arguments against bad rules, push for devolution, but do away with subsidies that define the landscape. The trail presupposes that our willingness to accept responsibility and accountability exceeds that of the absentee landowners, private and public, who currently dominated the western landscape. An open space future for the West then depends on our own willingness and ability to pay for the empty space we cherish. On the *complex cowboy* trail, however, economics says the West has only itself to blame for more federal intervention, and we must continue to work with the East to set goals, review which subsidies stay and which go, and accept a watered-down version of devolution. The West still must come to terms with what it is and what it really wants. Persuasive economic reasoning can help guide either direction we choose to take.

4.

Let's end on a broader perspective. It took awhile, but I finally get it—a sense of the seriousness that drives many economists. The bigger picture I purposefully avoided

in my apolitical pursuit to master the meaning of the third derivative is unavoidable. I now see my role—perhaps our role, you are the judge of that—as more than accountants of the axiomatic. My concern is less about whether, say the value of recreation fishing per day trip is really \$3.54 or \$4.12, but is more about letting moralists and ideologues make all the big decisions. Do we take ourselves out of the real-time debates on social order by only trying to sway each other? For as hard as it is to convince anonymous reviewers of one's ideas, it is often harder to de-jargon and communicate these ideas clearly to one's parents. But we do have a responsibility to point out that new rules remain undesirable unless the benefits exceed the costs.

Economists have made significant inroads into resource policy at the federal level—the push to codify cost-benefit regulatory reform in Congress; the endorsement of tradable carbon emission permits in Kyoto. Successes like these reveal that good ideas stick over the long-run. But economics has its own problems that deserve more attention. Economic historian Mark Blaug attributes our problems to being too easily distracted from reality to escapist puzzles and second-order technicalities.¹² We often suspend the craft of diplomacy and inflate our status in the discourse of public policy by giving too little credibility to the existence of political "wise men." The scorched-earth approach driven by economic correctness comes across as callous and arrogant, and often counterproductive in resource policy settings, a lesson I learned too late. And while we do not have to be wallflowers, more emphasis on the aggressive, sophisticated informality as used by Schultze and Keynes and Friedman to advocate efficiency seems most worthwhile.

This all makes good sense and we should do more of it. How do we do this? One way to start is to accept our responsibility to inform others, not expect others to automatically understand us. I now see the value in taking one's ideas that have survived the furnace of professional journals, remolding them into everyday language, and publishing them in mainstream outlets where normal people might actually read them.¹³ Some of us do this already; more should try, including me. Paul Krugman is the current role model for this conduct.¹⁴ Another step I have taken is to have my graduate students write "memos to the President" that translates what they are doing into plain English and explains why it matters for society. If the current short-term incentives in academia do not exist to take these steps—we should do it anyway. We have to care enough about our ideas to get them into broad daylight.

I recall reading in the New York Times sometime within the last year that for 5,000 years the best humans could do was to increase our life expectancy by 5 years. About 200 years ago, however, something changed—and since then Western culture has witnessed a 30-year increase in how long we might live. Was it just a coincidence that around the same time *The Wealth of Nations* was published? I do not think so. For two centuries economists from Adam Smith to Hayek and beyond have argued for the market as the best ways to organize the diffuse set of information and to direct motivations in society. The market is a process of discovery, a creator of wealth, and more wealth creates more health. And while I know this is over-the-top, I am willing to give economists credit for at least 21 of those 30 extra years. And we can continue to do good things if we keep working to give people a chance to invest in themselves so they can create their own luck. Behavior matters, and economists who can explain why in

simple and well-timed language can help make resource policy better, in both the East and the West.

Footnotes

1. Keynote address at the 1998 Western Agricultural Economics Association Meetings. Stroock Distinguished professor of natural resource conservation and management, Department of Economics and Finance, University of Wyoming, Laramie, WY 82071-3985, jramses@uwyo.edu. Thanks to Tom Crocker, Sean Fox, Sally Kane, Sherrill Shaffer, Ray Squitieri, and the reviewers for their helpful comments. Thanks to Bruce Weber for the Stegner quote.
2. William Riebsame (1998) stresses that the ‘West’ keeps moving around in time and space. The Interior West stretches from the foothills of the Rocky Mountains to the crests of the Sierra Nevada and Cascade Ranges. Donald Snow (1997) calls the West the region of overworked adjectives—Wild, Old, New, Next, Real, etc.
3. Also see Shogren (1998a).
4. See for example Cawley (1993).
5. For examples on different perspectives toward stewardship see Anderson and Leal (1997), Berry (1992), Ciriacy-Wantrup (1952), and Robbins (1994).
6. Quoted in Passell (1998). In all fairness, these same questions could be asked for eastern states as well; but the East has plenty of pundits to deal with their problems.
7. *The Economist* (1998).
8. For example, Degaudio is quite animated about this point: "Anyhow, the people have little interest in the ideas of the professors of economics....[T]he people have little patience of academic incrementalism and less stake in the excessively cute laws concocted to make federal agencies do paperwork."
9. See *The Economist* (1997).

10. For an overview of the benefits and costs of the Kyoto climate change accord see Shogren (1998b).
11. For instance, see Brown and Shogren (1998), Gould et al. (1997), and Kite et al. (1998).
12. See Blaug (1998). Also see Krugman (1998) for a response that promotes the idea of sophisticated informality.
13. See Holt and Bielema (1996).
14. See Krugman (1997)

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