

Two Very Different Efforts

Reviewed by *Richard L. Gordon*

CHOOSING ENVIRONMENTAL POLICY: Comparing Instruments and Outcomes in the United States and Europe

edited by *Winston Harrington, Richard D.*

Morgenstern, and Thomas Sterner

284 pages; Washington, D.C.:

Resources for the Future, 2004

NEW APPROACHES ON ENERGY AND THE ENVIRONMENT: Policy Advice for the President

edited by *Richard D. Morgenstern and*

Paul R. Portney

154 pages; Washington, D.C.:

Resources for the Future, 2004

RESOURCES FOR THE FUTURE (RFF) recently released two very different anthologies on environmental and natural resources policies. One of the books is a valuable addition to the literature; the other is an immense disappointment.

THE GOOD EFFORT *Choosing Environmental Policy* examines U.S. and European use of both traditional command-and-control regulation and economic-incentive regulation to control six different forms of pollution: chlorofluorocarbons, sulfur dioxide, water pollutants, nitrogen oxides, leaded gasoline, and trichloroethylene. The discussions are invaluable to analysts interested in questions of the effectiveness and cost of the two types of regulation.

Sulfur dioxide controls are studied in two chapters, one devoted to Germany's use of command-and-control and the United States' use of emissions trading permits. Author Frank Wätzold's review of German experience concludes that the program achieved substantial emissions

reduction, but at a very high price. Wätzold justifies the expense by arguing that the Germans had extremely ambitious emissions-limit goals, and that only a costly maximum-feasible-reduction program could achieve those goals in the desired period of time. This justification overlooks the question of the wisdom of such goals. Wätzold also does not give attention to one of the program's most important (though veiled) considerations: ensuring that sulfur dioxide controls not harm German coal mining. That policy goal led to the Germans imitating the U.S. practice of adopting policies that limit shifting away from the use of coal in areas near the mines.

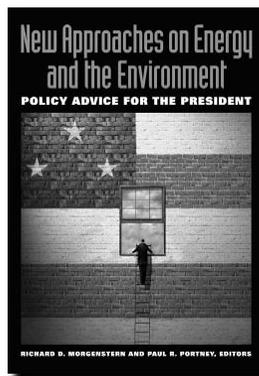
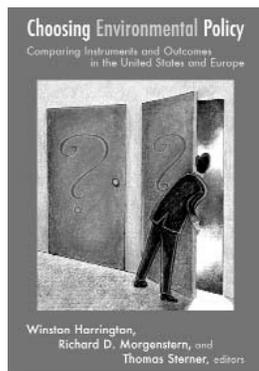
Two other chapters consider, respectively, U.S. use of command-and-control regulation and the Netherlands' use of emissions fees to control water pollution. Other chapters examine U.S., French, and Swedish uses of both types of policy to control nitrogen oxide emissions, and both U.S. and European use of tradable emissions permits to control the release of chlorofluorocarbons. Those chapters are well done. The book's concluding chapter offers a strong vindication of economists' preference for economic incentives over command-and-control. Altogether, the book serves as a good introduction to this proposition and its affirmation by the case studies.

THE NOT-SO-GOOD EFFORT In contrast, *New Approaches on Energy and the Environment* is a disappointing book. Indeed, the very format of the book, as expressed in its subtitle *Policy Advice for the President*, is a surprising one. Typically (in recent years at least), advice

books come from groups like Cato, the Progressive Policy Institute, or the Heritage Foundation that have strong policy positions. RFF, an avowedly apolitical research organization, decided to join in developing a briefing book for a new political cycle.

Despite a title that narrows the focus to energy and the environment, the book itself covers every policy-related area studied by RFF, including agriculture, forestry, fisheries, space exploration, and medicine. The effort provides 25 short and (unfortunately) undocumented surveys. The writers accept a wide range of government interventions and confine themselves to suggesting better ways to conduct government programs instead of considering if the programs are worthwhile and appropriate. In many cases, this posture arises despite concerns, often expressed in prior RFF work, about the wisdom of government intervention. Those concerns should have been addressed in the four energy chapters, as well as the chapters on Superfund, forestry, and space (at the very least).

The section of the book dedicated to energy opens with three papers on climate change and then moves on to energy importation problems, "green" energy sources, automobile emissions, and electricity competition. The importation discussion suffers from its failure to consider the argument—offered by many policy analysts including former RFF scholars Douglas Bohi and Michael Toman—that the need for government intervention in energy imports is exaggerated. The green-energy piece is primarily an effort to advance various climate-change policies (including the implementation of a carbon tax), although the chapter does draw on dubious arguments about resource depletion and national security. The discussion



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results in a call for mandated use of green energy—apparently the high costs of a supposedly about-to-be-depleted resource are insufficient to prompt the change to green power. The auto emissions discussion ignores the extensive literature criticizing the use of fleet economy rules to control automobile fuel use. The electricity deregulation discussion is largely a listing of deregulatory issues that author Tim Brennan considers unresolved; proposals are limited to the obvious one of allowing retail rates to reflect wholesale prices and suggesting that the regional transmission organizations advocated by FERC have “the geographic scope and independence to match the size of the wholesale markets they manage.”

The climate change chapters all call for (expensive) action. Some are quixotic. One paper offers a list of reasonable suggestions for how climate policy should be designed, but then calls for \$3 billion per year in research support. A discussion on the drawbacks of climate-policy research notes the politicization of that research and calls for depoliticizing the grant process—ignoring that such efforts have been tried before with persistent failure. The discussion of implementing a carbon tax cites as one of its benefits the lowering of the budget deficit—a worthwhile objective, but not exactly an environmental justification for such a tax.

The environment, health, and safety section offers 10 chapters that are at least as problematic as the climate change chapters. The review begins with an unfortunate call for more reduction of the emissions of sulfur oxides and nitrogen oxides, ignoring the fact that Congress has previously legislated at least two supposedly optimum control programs for the pollutants. Why are those programs now being treated as suboptimal? Fortunately, there is one satisfactory effort in this section: the chapter calling for congestion fees for roads. That is counterbalanced by the chapter that calls for better administration of Superfund but ignores the fact that the program was an unwise over-response to publicity over Love Canal, and Superfund is in desperate need of reconsideration.

The natural resources section is a grab bag of chapters treating forestry, space, overuse of antibiotics, and fishery management. These chapters follow the general theme of the book: better government intervention is needed. The forestry chapter, for instance, gives no thought to the idea that the national forests are a prime candidate for privatization. The book then

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closes with all-too-familiar proposals for better data and better policy analyses.

What makes this book so disappointing is that RFF has such a strong track record of recognizing the excesses and detriments of government regulation. The book reads too much like the sort of

sponsored research that comes from the in-house analysts in the congressional advice agencies, from presidential commissions, and from the National Academies. Perhaps RFF has become too involved in such sponsored research?

Indeed, several of the chapters appear derived from RFF work for the National Commission on Energy Policy, a misconceived, privately financed effort that ignored the many interventionist errors that have marred prior policy studies. The commission’s report offers precious little support for its arguments and recommendations, and instead relies

on masses of commissioned papers that allegedly support its conclusions. In that context, the RFF studies provide the voices of reason amid the mass of deplorable briefs for statism, often coming from the authors of bad advice in the 1970s. In isolation, alas the efforts are unsatisfactory.

Cowboys, Indians, and Spontaneous Order

Reviewed by George C. Leef

THE NOT SO WILD, WILD WEST

By Terry L. Anderson and Peter J. Hill

250 pages; Stanford, Calif., Stanford University Press, 2004

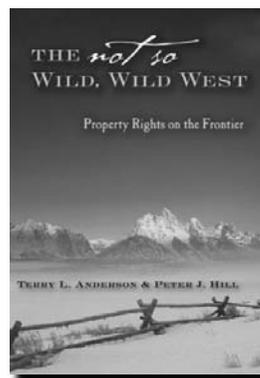
I REMEMBER VERY well the images of the American West that I received as a child. Movies, TV shows, and books convinced me that the West was excitingly wild and violent, with wars and gunfights the staples of everyday life. No doubt, millions of others have grown up with the same idea and with the corollary belief that the West was won by the extension of governmental authority

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into the region, which brought about order and peace.

Guess what? It’s mostly a fable.

In their recent book *The Not So Wild, Wild West: Property Rights on the Frontier*, economists Terry Anderson and Peter Hill



argue that the West was not at all like the common view. Violence was not particularly prevalent, and stable socio-economic relationships arose spontaneously before there was much governmental presence. In fact, Anderson and Hill repeatedly show that the arrival of governmental authority usually made matters

worse, as politicians and interest groups were able to upset the arrangements that people had previously established to minimize conflict and maximize the benefits they could derive from the land and its resources.

Writing from the vantage point of “new institutional economics,” the authors explain that “cooperation dominated conflict because the benefits and costs of institutional change redounded to small, well-defined groups or communities. As long as new institutions evolved locally and voluntarily, the costs of conflict and the benefits of cooperation were internalized by the decision-makers.” Whether the issue was cattle, mining claims, water, or anything else, people were remarkably

ans? Most readers will be surprised to learn that it was uncommon in much of the 18th and part of the 19th centuries. In those years, trading and negotiation were the norm and warfare rare.

The famous Indian wars of the 1870s and 1880s had to do mainly with the arrival of the regular U.S. Army. Anderson and Hill observe that “maintaining a standing army, as opposed to raising local militia, shifted the cost of fighting to others and predictably increased the number of battles.” For one thing, the incentives of the Army were aligned with combat—the more of it, the more the chance for higher rank and pay. The authors quote General

William Tecumseh Sherman, who once lamented how hard it was to “make a decent excuse for an Indian war.” More importantly, those who were interested in taking Indian land could spread the cost and risk among the rest of the population, and they did not hesitate to do so. The book makes it clear that the problem was not “the white man,” but rather the fact that some white men were in a position to make others bear the cost of aggression when they could use organized coercion to achieve their objectives.

Once the Indians had been driven onto reservations, they tried to adapt to their new circumstances as best they could, only to encounter interference from the federal bureaucracy. The Blackfeet, for example, began herding privately owned cattle on their reservation, but in the early 1900s, government busybodies insisted that they establish commonly owned herds instead.

Washington also meddled pervasively with Indian land usage through the Allotment Act of 1887, upsetting Indian property rights arrangements and allowing whites to grab Indian land through bureaucratic machinations. The authors write that “self-seeking bureaucrats and land-hungry settlers were able to mold the Office of Indian Affairs to their own purposes through the attenuation of Indian rights.” This is an old, sad story: special interest groups use the federal bureaucracy to accomplish objectives that they

could not achieve otherwise. Although Anderson and Hill do not draw the parallel, at about the same time the railroads were capturing the Interstate Commerce Commission and using its power to crush rate competition. Regulatory power usually winds up being employed by interest groups to serve their particular ends, and *The Not So Wild, Wild West* drives that point home repeatedly.

PUBLIC LANDS Entrepreneurship is often attacked as the cause of conflict and the despoiling of the West, but Anderson and Hill point out some telling examples to the contrary. Consider their telling of the early history of Yellowstone National Park:

Contrary to popular myth, Yellowstone, the nation’s first national park, was not created because farsighted conservationists feared that private development would destroy the area’s spectacular natural wonders. Rather, it was created mainly because railroad entrepreneurs recognized the profit opportunities available from transporting tourists to the park and providing them with accommodations. . . . Fearing that homesteaders would claim attractions such as Mammoth Hot Springs or Old Faithful that would eat into the railroad’s share of potential rents, the Northern Pacific lobbied Congress to set aside the region as a national park and to give Northern Pacific or its subsidiaries monopoly control of transportation and accommodations within the park.

This is just one more of the many reasons found in the book to reject the prevalent idea that entrepreneurs are (to continue the Wild West imagery) the guys in the black hats.

Rationality rather than conflict was similarly the rule with frontier mining claims and the allocation of water rights. The book also has a wonderfully insightful chapter on the economics of wagon trains. Its discussion of the irrationality, inefficiency, and utter folly of federal intervention with the natural order that had previously arisen should be imported into college economics and public policy courses.

The American West was a laboratory in which Hayekian ideas were put to the test and found to hold true.

good at devising efficient rules and structures in order to make the most of the conditions they faced. In a nutshell, the American West was a laboratory in which Hayekian ideas about the benefits of spontaneous order were put to the test and found to hold true.

INDIAN TROUBLES? Anderson and Hill look at the West from numerous angles, all yielding fascinating insights. Their chapter entitled “Property Rights in Indian Country” dispels the myth that American Indians lived in a kind of socialist utopia with no taint of private property. Depending on their circumstances, which varied greatly in different regions, Indian tribes developed property rights institutions ranging from communal to “systems hardly less individualistic than our own.” Indian cultures devised private property where resources required long-term investments and care to avoid what we now call the tragedy of the commons.

Among the Paiute, for example, groves of pinon trees were treated as family property subject to inheritance and they had rules against trespass. The romantic leftist notion that American Indians demonstrate the superiority of socialism has lain in intellectual ruins for years. If you need a cogent refutation (perhaps to use against teachers who indulge in the Chief Seattle myth), you cannot do better than this book.

What about all the warfare with Indi-

es as an antidote to the facile notion that market failure is widespread and needs to be corrected by government regulation.

LEARNING FROM HISTORY The book offers more than just a corrective to historical misperceptions; its concluding chapter contains wise applications of the

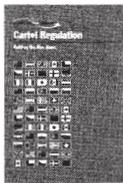
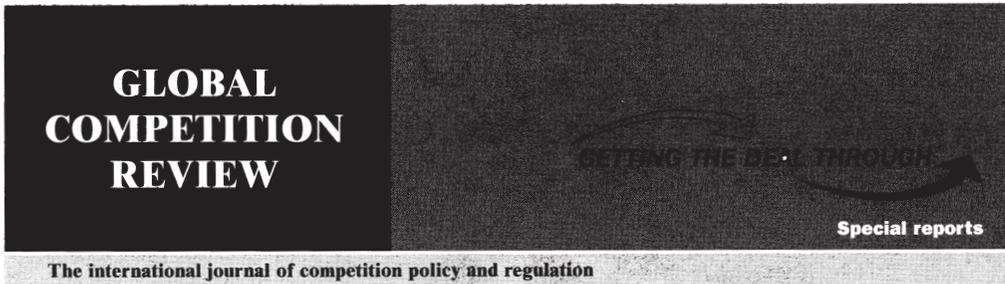
insights gleaned from the evolution of property rights in the Old West to modern problems. Just as the U.S. government impeded the optimal development of the West with clumsy interference that upset the land-use arrangements that had spontaneously arisen, so do many “Third World” governments

impede the optimal development of their countries by implementing top-down control of economic institutions. “The lack of secure property rights and the control of institutions by central governments without regard for local conditions have also been major causes of stagnation and conflict throughout

Africa,” write the authors. Further, developing nations that refuse to respect intellectual property rights (such as the piracy of software), while seeming in the short run to be a gain for them, are establishing conditions that will hurt their economic development in the long run.

We have lessons to learn from this history. With regard to property rights in the electromagnetic spectrum, for instance, we should avoid hasty, centralized allocation mechanisms cooked up by lobbyists and federal bureaucrats, and instead allow the free market to guide the evolution of the institutional arrangements. Anderson and Hill applaud the auctioning of cellular telephone licenses rather than the Federal Communications Commission’s original impulse to assign frequencies based on a vague “worthiness” standard, to cite one example.

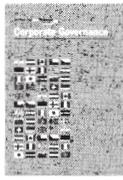
The Not So Wild, Wild West is a beautifully written and printed volume that teaches us much about the American West, but also about human nature and the economic way of thinking. Congratulations to Terry Anderson and P.J. Hill for an outstanding book. **R**



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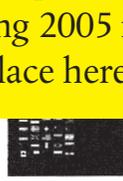
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