

December 3, 2003

A Letter from Economists to President Bush and the Governors of Eleven Western States Regarding the Economic Importance of the West's Natural Environment.

To:

President George W. Bush
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

The Honorable Dave Freudenthal, Governor of Wyoming
State Capitol Building
Cheyenne, WY 82002-0010

The Honorable Kenny Guinn, Governor of Nevada
State Capitol
101 North Carson Street
Carson City, NV 89701

The Honorable Dirk Kempthorne, Governor of Idaho
700 West Jefferson, 2nd Floor
P.O. Box 83720
Boise, Idaho 83720-0034

The Honorable Ted Kulongoski, Governor of Oregon
160 State Capitol
900 Court Street
Salem, Oregon 97301-4047

The Honorable Gary Locke, Governor of Washington
PO Box 40002
Olympia, WA 98504-0002

The Honorable Judy Martz, Governor of Montana
P.O. Box 0801
204 State Capitol
Helena, MT 59620-0801

The Honorable Janet Napolitano, Governor of Arizona
1700 West Washington
Phoenix, AZ 85007

The Honorable Bill Owens, Governor of Colorado
136 State Capitol
Denver, CO 80203-1792

The Honorable Bill Richardson, Governor of New Mexico
Office of the Governor
Room 400, State Capitol Building
Santa Fe, NM 87501

The Honorable Arnold Schwarzenegger, Governor of California
State Capitol Building
Sacramento, CA 95814

The Honorable Olene Walker, Governor of Utah
210 State Capitol
Salt Lake City, UT 84114

Dear Mr. President;
Dear Governor Freudenthal;
Dear Governor Guinn;
Dear Governor Kempthorne;
Dear Governor Kulongoski;
Dear Governor Locke;
Dear Governor Martz;
Dear Governor Napolitano;
Dear Governor Owens;
Dear Governor Richardson;
Dear Governor Schwarzenegger;
Dear Governor Walker:

We are economists, and we are writing to express our concern about federal and state actions that harm the West's natural environment and, as a result, the economic outlook for this region's workers, families, firms, and communities.

The West's natural environment is, arguably, its greatest, long-run economic strength. The natural landscapes of the western states, with wide open spaces, outdoor recreational opportunities, and productive natural-resource systems underlie a quality of life that contributes to robust economic growth by attracting productive families, firms, and investments. The West's natural environment, however, faces serious challenges that threaten to undermine its contribution to the economy. These include air and water pollution, urban sprawl, the extension of roads and other development into roadless public lands, and fragmentation of habitat for native fish and wildlife.

The economic importance of the West's natural environment is widely recognized. Last year, for example, the Western Governors' Association, recognizing that "There is a lot at stake," reaffirmed its adoption of the Enlibra Principles for guiding policy and decision-making regarding natural resources and the environment.¹

The seventh of these principles is, "Recognition of Benefits and Costs – Make Sure All Decisions Affecting Infrastructure, Development and Environment are Fully Informed."² We endorse this principle, and we commend each of you for your commitments to apply it to the actions of your administration. Despite your commitments, however, many state and federal actions are causing additional environmental degradation, increasing the risks of future degradation, or slowing efforts to reverse past degradation. These actions harm the economy—across the West and in each of the states. They diminish the economic well-being of many residents, divert natural resources from their highest and best use, reduce the

¹ Western Governors' Association, "Principles for Environmental Management in the West." http://www.westgov.org/wga/policy/02/enlibra_07.pdf. p. 2.

² Ibid. p. 6.

environmental amenities that are essential ingredients of the West's quality of life, and pass to future generations the costs of cleaning up this generation's environmental messes.

We ask each of you to renew and strengthen your efforts to secure for the West both a healthy environment and a prosperous economy. Toward this end, we ask you to initiate a review of your administration's actions affecting the environment and the economy. This review should:

- Identify actions having a significant impact on the environment and fully describe the benefits and costs of each.
- Reinforce those actions that strengthen the economy by protecting or restoring environmental quality.
- Arrest those actions that damage the economy by degrading the environment.

In the remainder of this letter we describe the linkage between environmental quality and economic prosperity, identify some of the environmental policies and activities harmful to western economies, and express eight principles for capitalizing on the environment-economy linkage.

Environmental Quality Is a Major Source of the West's Long-Run, Economic Strength

In the distant past, the West's natural resources were widely abundant and important to the economy primarily when they were converted into something else. We converted forests, mineral deposits, and streams into lumber, metals, and hydroelectricity; valleys, wetlands, and hillsides into agricultural and urban landscapes; and land, water and air into waste repositories.

Today, conditions have changed.

Some important elements of the environment are scarcer. The population and distribution of many native species have diminished markedly. Similarly, the supplies of roadless lands, free-flowing rivers, and unexploited marine areas have diminished and, although there have been some notable improvements recently, much of the West's air and water remains degraded.

The structure of the western economy has changed. Though still important, extractive industries (logging, mining, and commercial fishing) and agriculture now play a smaller economic role because their ability to generate new jobs and higher incomes has declined. Across most of the West, a community's ability to retain and attract workers and firms now drives its prosperity. But if a community's natural environment is degraded, it has greater difficulty retaining and attracting workers and firms.

The economic costs of environmental degradation are rising. As the West's population increases, so too do the damages (current and future) from exposure to hazardous pollution and the degradation of environmental amenities. As their habitats

shrink, many native species face an increased risk of extinction. Reversing this trend becomes more expensive over time. As ecosystems are degraded, they provide fewer economically valuable services, such as cleansing the water in streams, and communities therefore must provide replacement services with water-treatment plants and other costly investments.

The economic benefits of protecting and restoring environmental quality are large and increasing. As the West's population increases, the West enjoys greater economic benefits by avoiding exposure to hazardous pollution, maintaining scenic natural vistas, extending the availability of recreational opportunities in clean environments and on public lands, and sustaining the existence of undeveloped lands and healthy ecosystems.

Misleading price signals slow economic growth. Inefficient pricing of many natural resources encourages waste and diminishes economic productivity by allocating resources to low-value uses, while higher-value uses languish. Subsidies to irrigation, logging, public-land ranching, and mining prop up activities that would not take place under efficient, market conditions. Underpricing of urban roads, municipal-industrial water, and pollution emissions sends false signals regarding the true cost of urban sprawl, and the true value of free-flowing streams, and clean air and water.

Climate change poses significant economic risks. Global warming threatens to alter winter snow fall in the West's mountains, increasing the risk that runoff in important rivers will fall short of summer demands for water; raise sea levels, increase the risk of coastal flooding, change the distribution of habitats, and increase the risk of extinction for some threatened and endangered species.

As these and related changes evolve, the economic health of western communities increasingly will depend on the health of the environment. Long-run prosperity will derive from efficient, effective efforts to conserve increasingly scarce environmental resources, protect high-quality natural environments, reverse past environmental degradation, and manage congestion in both urban areas and on public lands with high recreational use. Resource-management policies and economic-development activities that significantly compromise the environment will likely do more economic harm than good.

Many Current Policies and Activities Degrade or Threaten the West's Environment and Jeopardize the West's Prosperity

Numerous governmental policies and activities affecting the West's natural resources, which purportedly help the West's economies, are doing just the opposite. Here are a few examples:

Inadequate investment in parks. The federal government has failed to maintain the infrastructure and environmental quality of national parks. State and local governments have done the same with their own parks. These failures have weakened the West's economies by reducing the attractiveness of nearby communities to workers and firms and by eroding the foundation for the outdoor recreation and tourism industries.

Reduced protection for roadless public lands. By opening roadless lands to vehicular traffic, mining, logging, grazing, and other development, usually at a net cost to the US taxpayer, the federal government has expanded the supply of that which is already plentiful and common at the expense of that which is increasingly scarce and unique. Such actions fail to account for the benefits non-motorized visitors receive from these lands and for the loss of the considerable economic benefits—recreation, high-quality water, wildlife habitat, spiritual values, and more—that public lands provide when they are undeveloped. The loss of these benefits undermines one of the cornerstones of economic strength for communities throughout the West.

Slow action to conserve threatened and endangered species. Congress has failed to provide adequate funding, and federal agencies have dragged their feet when called upon to conserve threatened and endangered species. These actions jeopardize the economic outlook for western communities by increasing the risks to species with high economic value, protecting inefficient and often subsidized activities harmful to both the species and the economy, and raising the ultimate costs of conserving the species.

Slow clean-up of polluted sites. Federal agencies have not requested and Congress has not provided adequate funding to clean-up Superfund sites promptly. Some state and local governments have slowed the clean-up process. Delayed clean-up of these sites harms the economy by extending westerners' exposure to hazardous materials, diminishing the value of nearby properties, impeding economic-development activities near polluted sites, and giving polluters additional incentives to pollute in the future.

Ineffective response to risks of global warming. Current research results are sufficiently robust to conclude that global warming poses significant economic risks to the West, including increases in coastal flooding, more frequent severe storms, and reductions in snowpack resulting in lower summer flows of important rivers and streams. These risks are perpetuated and strengthened by the failure of Congress and the White House to take decisive action to curb emissions of carbon dioxide and other global greenhouse gases.

Inefficient management of public forests. Federal and state forest managers emphasize the production of logs, forage, minerals, and other commodities without fully accounting for adverse impacts on services, such as recreation, provision of clean water in streams, sequestration of carbon, and the existence of roadless lands. These actions reduce the overall value of goods and services derived from public forests.

Lack of appropriate incentives for resource conservation. With subsidies and inefficient pricing, federal, state, and local policies encourage waste and discourage conservation by hiding from consumers the full costs of resource-intensive activities, such as exploration for oil and gas, irrigation, public-land grazing, and congestion on urban roadways and at public-land recreation sites.

Unreasonable exemptions from environmental review. Federal resource managers have granted exemptions for military operations, logging, exploration for oil and gas, operation of motor vehicles on roadless public lands, the use of some pesticides, the emission of air pollution, and other activities. Also, de facto exemptions occur when federal and state agencies fail to enforce environmental laws. The economy is harmed when activities are allowed to proceed even though their economic costs outweigh their benefits.

Unnecessarily divisive approaches to economic/environmental issues. The costs—to individual workers, families, firms, communities, and the economy as a whole—of the changing relationship between the economy and the environment are worsened by federal, state, and local actions that promote misunderstanding and divisiveness rather than cooperative problem-solving. Especially divisive and costly are proposals and decisions that presume the economic benefits of an increase in an extractive, agricultural, or development activity necessarily exceed the costs, even when the evidence indicates otherwise. Recent examples include proposals or decisions to:

- Encourage road development, vehicular traffic, and other development on lands with roadless or wilderness qualities, including national parks, national forests, and lands administered by the Bureau of Land Management.
- Promote energy consumption rather than conservation.
- Relax restrictions on emissions of water and air pollution.
- Forgo U.S. leadership of efforts to shape a prompt, efficient and global response to climate-change risks.
- Relax restrictions on the use of or exposure to potentially harmful substances.

We Encourage You to Adopt Initiatives that Promote Both a Healthy Environment and a Healthy Economy

We ask each of you to initiate a review of the economic effects of actions taken by your administration that have a significant impact on the environment. The primary objective of this review should be to identify and correct those actions that are harming the economy by degrading the environment. It also should highlight the merits of those actions beneficial to both the environment and the economy. We urge you to act promptly.

We also urge you to implement appropriate policies and procedures to increase the likelihood that future governmental actions will capitalize on and reinforce the evolving relationship between the West's environment and its economy. These initiatives should incorporate these eight principles:

- Principle #1: Environmental protection has economic benefits as well as economic costs. It has positive as well as negative impacts on jobs and incomes.
- Principle #2: Some economic interests in natural resources are mostly local but, increasingly, the interests are broader in geographic scope: regional, national, and even global.
- Principle #3: To discourage waste, prices for the use of environmental resources should reflect the full costs and benefits to the economy, exclusive of subsidies.
- Principle #4: Given their stewardship responsibilities regarding the environment, it is appropriate for governments to encourage or undertake activities that protect the environment and to discourage or prohibit those that do not. It is also appropriate for government to own and use land and water resources to

protect the environment and to support others who desire to own and use resources for the same purpose.

Principle #5: Governments should continually seek to improve the efficiency of their environmental- and resource-management programs without compromising their responsibilities. These programs may include a mixture of regulations, incentives, and public ownership of resources. They should aim to bring about as high a level of environmental quality as possible for a given expenditure.

Principle #6: To understand the full, potential economic consequences of a pending resource-management decision, one should consider the potential reversal costs if the decision should yield undesirable outcomes.

Principle #7: The benefits and costs of environmental protection and degradation fall unevenly on different groups. Anticipating and mitigating these effects can reduce the controversies over the West's environment and economy. Having the winners compensate the losers, for example, could serve this principle.

Principle #8: Owners of natural resources have both rights and responsibilities. Both private- and public-property owners have rights to use their properties in ways that do not unreasonably harm others or restrict their rights. Clarifying and respecting the rights of all parties—including future generations—affected by the uses of environmental resources remains a necessary condition for effective environmental management.

Conclusion

We are not saying that resource-intensive industries (agriculture, timber, commercial fishing, and mining) do not play an important role in the West's economies. They are important today, and we expect they will remain important in the future.

We are not saying that the shift away from industries and activities harmful to the environment will not hurt some workers, families, and communities. It has in the past and it will in the future.

We are not saying that protecting and improving the environment can be accomplished without costs, nor are we saying that governmental entities should disregard such costs. To the contrary, we are calling for consideration of the full range of costs and benefits of policies, decisions, and activities that affect the western environment and, hence, its economy.

We are not saying that no progress is being made in capitalizing on the link between environmental health and economic prosperity. Many private-sector firms and public agencies have taken actions to reduce their negative impact on the environment and found that they saved money.

Rather, we are saying that nearly all communities in the West will find they cannot have a healthy economy without a healthy environment. Moreover, there exist many opportunities in the West to improve both the environment and the economy, for example, the elimination of inefficient subsidies would make more money available for other public services or to reduce debt. The longer these opportunities languish, the fewer will be the West's jobs, the lower its incomes, and the poorer its communities. Conversely, the sooner we seize these opportunities, the sooner the West will enjoy more jobs, higher incomes, and greater prosperity.

We are saying that the economic pressures to arrest and reverse environmental degradation will increase. Those who promise that workers, firms, and communities tied to environmentally harmful activities can avoid these pressures if only the environmental laws, such as the Endangered Species Act, were set aside raise false hopes. The pressures are independent of specific laws. Even if such laws are repealed, the costs of environmentally harmful activities will continue to rise and jeopardize the economic outlook for affected communities. Public officials can best promote long-run economic prosperity in the West by encouraging efficient transitions away from harmful activities toward those beneficial to both the environment and the economy.

We are requesting that you recognize the important role the environment plays in western economies and take the steps we've identified to strengthen these economies by protecting and enhancing the quality of the region's natural environment.

Sincerely and respectfully,

The following individuals have endorsed the contents of this letter. Institutional references are provided for identification only.

State	Name, institutional affiliation
Arizona	Bonnie G. Colby, The University of Arizona
	Dennis Cory, University of Arizona
	Ron Trosper, Northern Arizona University
California	Dennis J. Aigner, University of California, Santa Barbara
	Kenneth J. Arrow, Stanford University
	Ted Bergstrom, University of California, Santa Barbara
	Christopher Costello, University of California, Santa Barbara
	Robert Deacon, University of California, Santa Barbara
	Stephen J. DeCanio, University of California, Santa Barbara
	Anthony Fisher, University of California, Berkeley
	Larry Goulder, Stanford University
	Steve Hackett, Humboldt State University
Michael Hanemann, University of California, Berkeley	

Amy Horne, Sierra Business Council
Daniel Ihara, Center for Environmental Economic Development
Charles Kolstad, University of California, Santa Barbara
Stephan Kroll, California State University, Sacramento
Peter Kuhn, University of California, Santa Barbara
Carol McAusland, University of California, Santa Barbara
John M. Marshall, University of California, Santa Barbara
Wade E. Martin, California State University, Long Beach
Roger Noll, Stanford University
Richard B. Norgaard, University of California, Berkeley
Kenneth Small, University of California at Irvine
David Starret, Stanford University

Colorado

Lee J. Alston, University of Colorado
Janis M. Carey, Colorado School of Mines
Katherine Carson, Affiliation: United States Air Force Academy
Brad Crowder, U.S. Environmental Protection Agency
Graham A. Davis, Colorado School of Mines
Nicholas Flores, University of Colorado
Philip E. Graves, University of Colorado
Marie Leigh Livingston, University of Northern Colorado
John Loomis, Colorado State University
Pete Morton, The Wilderness Society
Jennie Spelman Rice, Consulting Economist
Linda Stanley, Colorado State University

Idaho

Joel Hamilton, University of Idaho
Peter M. Lichtenstein, Boise State University
Christine Loucks, Boise State University
Gundars Rudzitis, University of Idaho
Tesa Stegner, Idaho State University
Robert Tokle, Idaho State University

Montana

Richard Barrett, University of Montana
Douglas Dalenberg, University of Montana
Tom Power, University of Montana
Ray Rasker, Sonoran Institute and Montana State University

Nevada

Mary Riddel, University of Nevada, Las Vegas
Kimberley Rollins, University of Nevada, Reno
Douglass Shaw, University of Nevada, Reno

New Mexico

Robert Berrrens, University of New Mexico
Alok K. Bohara, University of New Mexico
Chris Nunn Garcia, New Mexico Highlands University
Kristine M. Grimsrud, University of New Mexico
Tom McGuckin, New Mexico State University

Oregon

Randall Bluffstone, Portland State University
Trudy Ann Cameron, University of Oregon
Tom Carroll, Central Oregon Community College
Kimberly A. Clausing, Reed College
Ronald B. Davies, University of Oregon
David Ervin, Portland State University
Eban Goodstein, Lewis & Clark University
Joe Kerkvliet, Oregon State University
K. John McConnell, Oregon Health & Science University
Don Negri, Willamette University
Noelwah Netusil, Reed College
Ernie Niemi, ECONorthwest
Arthur O'Sullivan, Lewis & Clark College
Andrew J. Plantinga, Oregon State University
Carl M. Stevens, Reed College
Ed Whitelaw, University of Oregon

Utah

Arthur Caplan, Utah State University
Therese Grijalva, Weber State University
Robert J. Lilieholm, Utah State University

Washington

Gardner Brown, University of Washington
Ken Casavant, Washington State University
Dan Hagen, Western Washington University
Steve Henson, Western Washington University
Hart Hodges, Western Washington University
Ray Huffaker, Washington State University

Karin Sable, University of Puget Sound
Kate Stirling, University of Puget Sound
Norm Whittlesey, Washington State University

Wyoming

David Aadland, University of Wyoming
Ed Barbier, University of Wyoming
Tom Crocker, University of Wyoming
Robert W. Godby, University of Wyoming
Jason Shogren, University of Wyoming
John Tschirhart, University of Wyoming

Other states

Daniel Bromley, University of Wisconsin
Dallas Burtraw, Resources for the Future
Ujjayant Chakravorty, Emory University
Paul N. Courant, University of Michigan
Ronald Cummings, Georgia State University (Univ. New Mexico, emeritus)
Robert Haveman, University of Wisconsin-Madison
Thomas S. Jayne, Michigan State University
Matthew Martin, Economy.com
Kenneth E. (Ted) McConnell, University of Maryland
Michael R. Moore, University of Michigan
Rodney B.W. Smith, University of Minnesota
Robert Solow, Massachusetts Institute of Technology
John Sorrentino, Temple University Ambler
Ivar Strand, University of Maryland
Dave Tschirley, Michigan State University

For information about this paper, please send inquiries to:

*Ed Whitelaw
c/o 99 W. 10th Avenue, #400
Eugene, Oregon 97401
phone: 541-687-0051
email: whitelaw@eugene.econw.com*

Please cite this paper to Ed Whitelaw, editor.