Economics, Politics, and Public Policy

What our leaders do and say makes a real difference, as does what we do and say!
Economics and the environment

* Economics: the social science that deals with:
  * The production, distribution, and consumption of goods and services, and . . .
  * The theory and management of economies or economic systems.
* Economic goods and services are connected to, and depend on, the environment. Therefore, . . .
* We need to understand the biological and physical world to make wise decisions.
An economy: the system of exchanges of goods and services worked out by members of a society.

Goods and services are produced, distributed, and consumed.

People make economic decisions about:

- What they want and what they need, and . . .
- What they provide to others.

Economic activity impacts all of society:

- It can damage the environment and human health.
- Government rules and regulations impose limits.
Development and policies

* A relationship exists between a nation’s development and its environmental public policies.

* Patterns between environmental indicators and per capita income levels show that as income levels rise:
  * Problems (e.g. inadequate sanitation) decline through taxes and technology;
  * Problems (e.g. air pollution) increase and then decline through recognition and public policies;
  * But, some problems (e.g. suburban sprawl, CO₂ emissions) just increase.

* Effective public policies and institutions can help to solve problems (at least that’s the hope).
Environmental indicators and income:

Some things improve, others go to hell!

Note: Estimates are based on cross-country regression analysis of data from the 1980s.
* Emissions are from fossil fuels.
Economic systems

- Economic systems: the social and legal arrangements people construct to satisfy their needs and wants...
- To improve their well-being.
- A centrally planned economy — occurs with dictatorships.
- A free-market (capitalistic) economy — occurs with democracies.
- "Factors of production" in an economy include:
  - Land (natural resources),
  - Labor, and ...
  - Capital.
The classical view of economic activity...

- Involves the circular flow of money and products.
- Money flows from households to businesses.
  - People pay for goods and services.
  - Money flows from businesses to households.
- People are paid for their labor.
- Labor, lands, and capital are invested...
  - In the production of goods and services by businesses;
  - In the products consumed by households.
The rulers decide in dictatorships...

- The rulers make all basic decisions in a centrally planned economy; e.g. . . .
- What, when, and how much is produced;
- Where and by whom.
- The government owns and manages industry.
- Workers lack freedom to choose or change jobs. This was the case as . . .
- Seen in China and the Soviet Union.
- But it can cause huge problems.
- China grew economically when it abandoned this model.
The market decides . . .

* In a free-market economy. Where . . .
* The market itself decides what will be exchanged;
* The market is free from governmental interference.
* The system is open to competition and the interplay of supply and demand.
* With a limited supply: prices rise.
* The system is driven by people acting in their self-interest . . .
* To obtain goods, services, and wealth.
* Competition increases efficiency.
* This system works best when it is left alone.
Governments step in

* No country has a pure form of either economy.
* Governments are involved in most market economies.
* Governments own and operate infrastructure:
  * Postal services, power plants, public transportation.
* And control interest rates and adopt policies . . .
* To stimulate economic growth.
* Powerful business interests manipulate market economies:
  * Unscrupulous people can defraud others.
  * Only the government can police the market.
Is there an economic conscience?

- Many believe a capitalist economic system lacks a conscience, because, among other things . . .
- A market economy creates hardship for the poor, and . . .
- Workers are often exploited. Furthermore, . . .
- Market economies only offer access to goods and services. However, . . .
- Access alone does not provide for the poor.
- Society needs to provide a safety net.
- Corporate and individual self-interest leads to resource exploitation and pollution.
- Governments also manipulate the market . . .
- Through barriers and subsidies.
The need for a sustainable economy

* Globalization and the global economy successfully mobilizes people...
* To engage in economic activity.
* The global economy has improved well-being:
  * Higher life expectancies,
  * Labor-saving devices, and...
  * Lifestyle and work opportunities. But...
* It has also created environmental problems:
  * Poverty and hunger,
  * Decline of ecosystem goods and services,
  * Loss of biodiversity.
Therefore, a sustainable economy...

- Instead of promoting growth, will improve human well-being.
- Instead of drawing down natural capital, will value and preserve ecosystem goods and services.
- Instead of using damaging technologies, will use precautionary principles to minimize risks.
- In which businesses will eagerly provide green products.
Resources in a sustainable economy

- Land, labor, and capital are essential resources for a country’s economy.
- Ecological economists argue that the environment encompasses the economy, not the other way around. Huh? That’s because . . .
- Without the environment there is no economy.
- Economic production: the process of converting the natural world to the manufactured world.
- Resources from the environment are transformed by labor and capital . . .
- Then reenter the environment as waste (or are recycled).
Environmental economic view
Essential conditions for a market economy

- Resources are not distributed evenly among nations — ya’ think?!
- To achieve equity in the distribution of resources, economic development must support:
  - Social capital, that is the definition and enforcement of rights;
  - Laws, an honest legal system, a free press;
  - A well-developed market economy;
  - Free entry into and exit from markets; and...
  - Communication and transportation networks.
Use it up!

* Some resources or benefits are worth more now than they would be in the future.
* For example, an owner of a forest can . . .
  * Cut all the trees and sell the timber, or . . .
  * Hold onto the trees and hope for a higher price later, or . . .
  * Sustainably harvest the trees and spread out the profits.
* If the trees grow slower than the interest rate, the profitable decision is to cut them now.
* This ends up maximizing short-term profit over long-term resource use.
But maximizing short-term profit is way problematic.

- Future generations bear ecological costs.
- The self-interest of present individuals conflicts with the long-term sustainable interests of society.
- Some argue that conserving resources puts the interests of future generations above today’s poor.
- However, many are willing to sacrifice now to protect their children and grandchildren.
Environmental public policy:

- Includes laws and regulations that deal with a society's interactions with the environment.
- Is developed at all levels of government — local, state, federal, and international.
- Its purpose is to promote the common good.
- Its two goals are:
  - To improve human welfare, and . . .
  - To protect the natural world.
- It addresses prevention/reduction of pollution . . .
- As well as the use of natural resources.
Societies need environmental public policy.

- All public policy is developed in a sociopolitical context called politics.
- Humans can do great damage to the environment if society does not have an environmental policy. This is . . .
- Often seen in developing nations.
- Laws protecting the environment are not luxuries to be tolerated only if they do not interfere with freedom or economic development. Not at all; . . .
- They are part of the foundation of human society, and . . .
- They are essential for sustainability.
Policy options

* The object of environmental public policy: to change the behavior of polluters and resource users, in order...
* To benefit public welfare and the environment.
* Two approaches are used to accomplish changes
  * Command and control strategy: a direct regulatory approach that sets standards and prescribes technologies. Versus...
  * Market strategy: uses the market to set prices on pollution and resource use.
As countries develop, they deal with problems . . .

Through effective public policies.

But, other problems (e.g., air pollution, ozone depletion) arise that require further public policy development. Therefore, . . .

Policy life cycle: the predictable course of policy development.
Environmental problems in the policy life cycle

1. Recognition
   - Global warming
   - Nuclear wastes
   - Indoor air pollution
   - Urban sprawl

2. Formulation
   - Renewable energy
   - Acid deposition

3. Implementation
   - Ozone depletion
   - Municipal wastes
   - Air pollution

4. Control
   - Sewerage
   - Water treatment
   - Contagious diseases
Costs of environmental public policy

* Some policies have little or no direct monetary costs, with no major investment of administration or resources.
* For example, removing subsidies or denying access to national resources (like for cattle grazing or logging).
* But they have real political costs as powerful interests try to keep their privileges.
* Most policies impose real economic costs that must be paid.
* The equity principle: beneficiaries (customers and those whose health is protected) should pay...
* Through higher taxes or charges.
Impact on the economy

* Special interest groups and conservative think tanks argue that environmental regulations are excessive because, they say . . .

* They are bad for the economy . . .

* Costing jobs, reducing competitiveness, and . . . imposing nonproductive costs on the economy.

* These groups try to roll back laws and regulations.

* However, the “environment versus economy” tradeoff is actually a myth.

* Environmental protection has no significant adverse effect on the economy.
Truth is, environmental protection is not bad for the economy.

- Anecdotes are used for or against environmental policy.
- According to careful studies, environmental regulation is not bad for jobs and the economy.
- For example: 1.7% of “value added” came from pollution control, and ... 
- 0.1% of jobs lost were environmentally related.
- States with the strictest regulations had the highest job growth and economic performance!
- The environmental protection industry is huge.
- In one year, this industry raised billions of dollars and created millions of jobs.
Impacts of environmental policy

* Environmental public policy does not diminish a nation’s wealth.

* It transfers it from polluters to pollution controllers.

* The environmental protection industry is a major job-creating, profit-making, sales-generating industry.

* The argument that environmental protection is bad for the economy is unsound.

* Environmental protection is good for the economy.

* It is responsible for a healthier, more enjoyable environment.
However, environmental regulations do impose real costs.

- The costs of pollution control include:
  - The price of purchasing, installing, operating, and maintaining pollution-control equipment;
  - The price of implementing a control strategy.
- Banning an offensive product also incurs costs, because it . . .
  - Causes job losses and requires the development of new products and machinery.
- Regulations prevent an external bad by imposing economic costs shared by government, industry, and consumers.
And these costs go up.

- Pollution control costs increase exponentially with increased control.
- Pollution may be partially reduced inexpensively,
- But further reductions require expensive measures.
- 100% control is impossible at any cost.
- Regulatory control focuses on optimum cost-effectiveness.
- Costs of pollution control are powerful incentives to substitute, recycle, or redesign processes.
Benefit-cost ratio for reducing pollution

Cost or benefit (dollars)

Value of benefits derived

Area of optimum cost-effectiveness

Cost of pollution control

Reduction of pollution (percent)

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And costs can go down.

- In most cases, pollution-control technologies and strategies are understood and available.
- Equipment, labor, and maintenance costs can be estimated. But...
- Unanticipated problems increase costs.
- Experience and alternatives reduce costs.
- Industry and government usually overestimate regulatory costs. Because...
- They don’t anticipate technological innovations, and make...
- Deliberate attempts to project costs so high that regulators back down.
Progress

- Environmental regulation’s expenditures have paid for themselves many times over; e.g. . . .
- Decreased health care costs and a better environment.
- Some accomplishments of environmental public policy include . . .
- Air pollutants, lead, and toxic chemicals have decreased; and . . .
- Water is cleaner, recycling has increased, and toxic sites have been cleaned up.
- Benefit-cost analysis is now part of U.S. public policy.
Politics and the environment

- Environmental public policies impact businesses and private life. And...
- Political battles accompany environmental issues.
- Early environmental policies had broad political support. However, ...
- An environmental backlash occurred in the 1990s.
- Conservatives want reduced regulation to free up market forces. Because...
- They view environmentalists as the enemy of free enterprise. Fortunately most of...
- The public does not support this view.
President George W. Bush

* His environmental policy wrecked environmental programs.
* He was supported by anti-environmental interests.
* Environmental policies were weakened or canceled.
* The U.S. withdrew from the Kyoto protocol, canceled support for international family planning, softened pollution regulations, favored exploitation of fossil fuels, on ad nauseam...
* Bush used the regulatory process to change policies.
* Rules from agencies reflect White House ideology.
* Scientists were pressured to suppress findings that were inconsistent with policy or unfavorable to business (e.g. global warming due to humans).
A new broom

President Barack Obama reversed many Bush-era policies. For instance...

* A directive prevents political interference in science;
* The EPA considers greenhouse gases serious threats;
* Mountaintop coal debris is no longer dumped in streams;
* Federal agencies must once again consult with wildlife experts before taking actions that could harm species;
* His administration is embracing a new climate policy.

He has appointed exemplary scientists to head agencies.

* Scientific integrity: a main concern in formulating policy.
* America will move toward sustainability.
Citizen involvement

The public is directly involved in public policy.

- We receive the outcome of policies.
- We pay for benefits through taxes and higher costs.

To impact public policies:

- Become involved in local environmental problems;
- Become a member of an environmental organization;
- Inform your legislatures of your support for environmental policies;
- Know the viewpoints of political candidates;
- Stay informed on environmental affairs.
And now, to see how this really does matter . . .

- How US Policies Fueled Mexico’s Great Migration
- Read the article and give me your ideas about how we could ‘fix’ the situation.
- This is an assignment, due at the start of class Monday, January 23.

http://www.thenation.com/article/165438/how-us-policies-fueled-mexicos-great-migration