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BOOK NOTES

JOHN A. BADEN, ED., **FEDERAL JUDGE'S DESK REFERENCE TO ENVIRONMENTAL ECONOMICS**, Pacific Research Institute for Public Policy, San Francisco, California (1998); 324pp; \$41.00; ISBN 0-936488-84-0, softcover.

The *Federal Judge's Desk Reference to Environmental Economics* provides an in-depth introduction to environmental economics and policy analysis. The publication is based on classical readings in the discipline and is used in an annual seminar given by the *Foundation for Research on Economics and the Environment* for federal judges. The editor, John A. Baden, compiled several articles in each of seven areas of environmental economics. Each section is presented by (1) a short introduction; (2) one or more classic articles in political economy; (3) an article by a Nobel laureate who is also a member of the Mont Pelerin Society; and (4) a *Seattle Times* article written by Baden utilizing the concept.

The book focuses primarily on a body of scholarship called New Resource Economics ("NRE"). NRE emphasizes the constructive potential of private property rights, market incentives, and voluntary arrangements as a means to promote economic progress and environmental quality, while at the same time, preserving liberty. NRE has historical ties to the Founding Fathers, notably Thomas Jefferson and James Madison. NRE's current identity relates closely to several schools of economic thought such as: Chicago Economics, Public Choice Theory, Law and Economics, and Austrian Economics.

Section One, *Economic Coordination*, features articles written by Nobel laureate Friedrich A. Hayek and Hoover Institute economist Thomas Sowell. Hayek's article focuses on the problem of "giving decision-makers both the information and incentives required for socially responsible action" as applied to environmentally responsible behavior and the price system's superiority for achieving such behavior. Sowell's article distinguishes between two conceptions of knowledge: constrained and unconstrained. The difference between the two concepts influences how people think about knowledge and humanity's ability to constructively use that knowledge. Subsequently, the differences affect the kinds of economic and environmental policies people favor. The section concludes with Baden's discussion of how Hayek contributes to our understanding of the socialist economic model as embodied in the policies of the United States Forest Service.

Section Two, *Property Rights and Transaction Costs*, begins by

discussing the importance of property rights, both in form and ownership, in analyzing natural resource issues. The section proceeds to analyze the economic theory of externalities (where a person's actions impose costs or benefits on another) through the lens of pollution. The section concludes with a discussion of the forestry industry and government attempts to preserve owls through regulatory takings. Nobel laureate Ronald Coase, David Friedman, Terry Anderson, Peter Hill, and Richard Stroup all contribute to this section.

Section Three, *Marginal Analysis*, surveys the manner in which people decide to consume and produce by weighing additional costs and benefits to the environment. Included in this section is an example and refutation of total value analysis, an explanation of the concept of marginalism, application of the concept of marginal analysis to governmental bureaucracies, and discussion of how scarcity and marginal value affect everyday decisions. The section concludes with a critical analysis of the Rural Electrification Administration, a government subsidy program that has the effect of enriching the wealthy at the expense of "environmentally beneficial innovations." Writings by Nobel prizewinner Gary Becker, Paul Heyne, and Stephen Rhoads are featured.

Section Four, *Externalities*, provides a more in-depth analysis of the concept of externalities introduced in Section Two. Economist Larry Ruff's classic article, *The Economic Common Sense of Pollution*, responds to the notion that pollution is the product of immoral, exploitative capitalists by arguing that "changing people's information and incentives is more constructive than trying to change values." Nobel laureate James Buchanan and Gordon Tullock consider the efficiency of pollution taxes versus direct control and the difficulties of avoiding price mechanisms through regulatory mechanisms, as two different approaches to externalities. The section concludes with Baden advocating a pro-market stance in the environment because such a stance places "the public's well-being ahead of business' special privileges."

Section Five, *Common Pools*, begins with Garrett Hardin's classic environmental article, *The Tragedy of the Commons*. The article focuses on where the responsibility for a resource rests when no well-defined owner of that resource exists. Milton Friedman, another of the book's five Nobel laureates, discusses how "the concept of common pools can be misused in the environmental arena to create false justification for government action." Baden concludes the section with a succinct argument favoring harmonization of environmental quality with economic security and liberty.

Public Choice Theory is the title of Section Six. The Public Choice Theory ("Theory") is the application of economic reasoning to politics and public policy. The Theory examines the question, "how do people actually act given the information and incentives they face when considering legislative, judicial, and bureaucratic institutions?" The section discusses the failure of the government's interventions in the environmental arena and why those interventions rarely achieve the

theoretical efficiency and social justice they are meant to achieve. James Buchanan is again featured, as are political economists William Mitchell, Randy Simmons, and James Gwartney.

The final and most extensive Section Seven, *Evaluating Risks and Tradeoffs*, includes articles by many authors including David Bohm, David Kelley, Kip Viscusi, and Thomas Schelling, among others. The thrust of the section is that in the environmental world, no one perfect solution exists. Rather than focusing on unattainable goals, the solutions should attempt to strike a balance "in terms of tradeoffs between risks and benefits."

The *Federal Judge's Desk Reference to Environmental Economics*, offers a wide array of articles providing an in-depth, articulate, and thoughtful introduction to environmental economics. The publication argues for a rational "environmental policy based on rigorous analysis rather than ideology, emotion, and misinformation." The overarching themes emphasize liberty and individual responsibility, the interrelatedness of economies and ecosystems, and economic efficiency as a means of producing environmental quality. The volume contains a useful glossary of frequently used terms. The publication is a useful resource for anyone interested in the convergence of environmental economics and personal freedom.

Adam B. Kehrl

RONALD KEITH GADDIE AND JAMES L. REGENS, REGULATING WETLANDS PROTECTION: ENVIRONMENTAL FEDERALISM AND THE STATES, State University of New York Press, Albany, New York (2000); 155pp; \$16.95; ISBN 0-7914-4350-7, softcover.

This publication offers a study of the dynamics of the law governing wetland protection. The publication examines section 404 of the Clean Water Act ("CWA") and state assumption of this federal wetlands regulation program. The publication successfully provides detailed analysis and insight into two topics important in environmental law today: wetlands protection and regulatory federalism.

Chapter One, *Wetlands, Federalism, and the Implementation Problem*, outlines the nature of the study conducted. It evaluates an alternative to federal wetland regulation: state assumption of federal authority to administer section 404 projects. The section 404 discharge-and-fill permit program is the principal component of federal wetlands regulation. To date, only Michigan and New Jersey have full authority to administer the section 404 permit program. The study examines the relationship between federal and state governments in the regulation of environmental resources. The study also addresses implementation problems associated with state assumption of wetland regulation authority. One implementation concern is whether the