

Environmental Economics

The Cromulent Economics Blog

August 11, 2008

Coase in Action

via [Grist](#), we hear that environmentalists have "given in"

Environmental groups dropped their opposition to two different coal-fired power plant expansion projects in Wisconsin and Texas this week after the utilities agreed to a range of concessions designed to limit the environmental impacts of the plants.

[snip]

"We've been fighting for more than seven years ... It's time to put this [plant] behind us and focus on the other ones that are in the pipeline," said Bruce Nilles of the Sierra Club.

Although some were quick to condemn the compromise between enviro and power utilities, they are too naive. In a world of extremes, there would be no power plants (e.g., Malibu) OR many, polluting power plants (e.g., China). In a more-reasonable world, interest groups negotiate to find a common ground where there is *some* pollution but too much. Such compromise is helpful, because the world of extremes is too costly in terms of opportunity foregone or environment destroyed.

As [Coase said](#), assign property rights and then let parties negotiate. With these agreements, the environmental organizations -- representing citizens and Nature -- have made a deal with the power generators that represent power consumers. Better that than continued gridlock. (I'm wondering who had the property rights, and I'd put my money on the enviros, who had the ability to block new plants nearly indefinitely.)

Bottom Line: Life is about tradeoffs. It's easy to live without pollution if you are willing to do everything with the tools that Nature has given you (sun, muscles, nuts and berries), but if you want more comfort, you have to use some resources. Even more important, other people want to use resources, and it's not easy to stop them. Compromise and move on.

Also at Aguanomics today:

[Money from Water](#)

[Holes in One or Two or Three](#)

[Heavy Rains](#)

[Numbers You Need to Know](#)



Posted by [David Zetland](#) on August 11, 2008 at 09:56 AM in [Energy Resources](#) | [Permalink](#)

[Reblog \(0\)](#) |

Tweet |



Like 0

Comments



[David Zetland](#) said...

I deleted the comment above because it was BOTH off-topic (sustainable growth) and too long. Here's a short version:

"This position statement acknowledges that the human economy is contained within, and dependent on, a finite and depletable natural environment," said Environmental Commission member Heather Reynolds. "Ever-increasing economic growth ultimately leads to resource consumption and waste production at rates greater than can be sustained by nature." A steady state economy for the U.S. will depend in no small part on the efforts made by communities across the nation to achieve sustainable local economies. The first step is awareness and acceptance of the concepts, both of which it is hoped that the position statement will foster.

and a [link](#)

August 11, 2008 at 02:15 PM



Dan Cole said...

Only someone who has not read 'The Problem of Social Cost,' but has read about the 'Coase theorem', would assert that Coase argued in favor of simply assigning property rights and allowing bargaining to occur. You should actually read what Coase wrote: it's interesting, well-written, not nearly as simplistic as it is usually portrayed (as in your blog post), and absolutely convincing.

August 11, 2008 at 02:18 PM



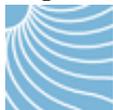
David Zetland said...

Dan -- I've read it, which surely what you're implying. :)

Given that it's even more convincing than my post, only people who disagree with my post should read it, right? Good.

<http://www.sfu.ca/~allen/CoaseJLE1960.pdf>

August 11, 2008 at 03:03 PM



dan cole said...

Well then, David, surely you know that (a) property rights can be expensive to assign, (b) transaction costs can impede efficient bargaining over property rights. Thus, it's not just a matter of assigning rights and allowing parties to bargain. As Coase takes pains to note, the initial allocation can be all important in conditions of positive transaction costs that could impede efficient reallocations.

In the case you're discussing, who held the property rights, the power plants or the environmental groups? It's not at all easy to say. All we know is that the parties seem to have contracted their way to a solution that satisfied them both. From that we can conclude that transaction costs were not so high as to prevent a seemingly efficient allocation of resources. But whether that allocation is socially efficient remains questionable. There may be other affected individuals who were not party to the agreement between the environmental groups and the power plants; and we do not know what values those individuals place on the affects.

August 11, 2008 at 03:45 PM



Don said...

Ah, the joy of social science! What did Coase say about moving forward or not with incomplete information about social efficiency? Gawd, must we freeze until certain that all affected individuals are party to agreements?

August 12, 2008 at 09:24 AM



Dan Cole said...

Don,

Of course we don't have to "freeze until certain that all affected individuals are party to agreements." But we shouldn't blithely assume that the result of the allocation/reallocation is socially efficient. Nor should we attribute to Coase the claim (which Coase never made) that all we need to do to attain socially efficient outcomes is establish property rights and institute freedom of contract.

Dan

August 12, 2008 at 03:32 PM



TokyoTom said...

I saw a report on the Wisconsin agreement too, and think that environmentalists need to do more deals like that. For example, I think there are deals to be done on ANWR and OCS, and on carbon taxes that would channel a portion of revenues back to states that otherwise stand to lose coal royalty/severance tax revenue.

I'm a bit chary on the aspects that call for more government mandates; the Wisconsin deal calls for the utility to support legislation that would require a higher share of renewables, for example, and the Sierra Club is also supporting Pickens' play for more solar power subsidies

August 13, 2008 at 03:15 AM

Comments on this post are closed.