



# THE ENVIRONMENTAL ECONOMIST

An *Internal* Newsletter for the Office of Senator Maria Cantwell

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Week of June 13, 2005

Issue 1

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## Introduction

Why am I writing this you may ask? After interning in Cantwell's office for a little more than a week, I realized that I have a lot to learn from everyone here and I want to return the favor. This is a newsletter I put together on my own time. I hope you enjoy this mild imposition.

I recently graduated from Cornell University where I majored in Environmental and Resource Economics and Sustainable Enterprise. If these sound like oxymorons to you, you are not alone.

On another note, I will be out of the office June 23-24 and the week of June 27 to fish in Alaska and return briefly to Washington state. I will bring back salmon to make up for my absence.

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## In this Issue

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## What is Environmental Economics?

I could bore you with the textbook definition of environmental economics, but I would rather illustrate how it can be used as a strong policy tool in all areas of government. As markets rarely exist for **public goods** such as carbon sequestering forests or **public "bads"** such as greenhouse gases, environmental economists use a variety of tools to assign market values to internalize these "**externalities.**" As you can see, public goods and public bads are often two sides of the same coin.

Why is this important? The decisions we make and the prices we pay for many goods do not reflect their true costs. For example, a tree is only valued for its timber, not its carbon sequestration, erosion prevention, or watershed protection<sup>1</sup>—all critical forms of **natural capital** hidden in our economy. Government plays a vital role in protecting public goods by providing incentives and information to promote better decisions in society, business, and politics.

You may be familiar with some techniques such as **marketable permits** and **pollution taxes**. Many of these techniques have been used in the United States and abroad. Title IV of the 1990 Clean Air Act Amendments established the SO<sub>2</sub> marketable permit program to cut emissions from coal-powered electricity plants to half their 1980 level by 1995. "Cap and trade" programs allocate a maximum number of permits to emit SO<sub>2</sub> and companies trade these permits. For example, firms with lower costs to abate pollution can sell permits to firms with higher costs. These programs have the potential to significantly reduce the cost of environmental regulations. On the other hand, environmental taxes are less common in the United States where everyone cringes with the words "tax reform." Yet, when goods such as gasoline are taxed appropriately to incorporate their external costs to society, their demand decreases, costs to society fall, innovation in sustainable technologies increases, and revenue is provided for related public goods. As with any policy, these market-based strategies have their limitations. The list of possible incentives goes on.

Environmental economics does not imply a necessary tradeoff between the economy and the environment where society is asked to trade off one for the other. For me, the trick is to think of creative **win-win** situations. The same logic applies for sustainable enterprise, a topic for later discussion in a future issue of this newsletter.

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<sup>1</sup> For more information about markets for ecosystem services, visit [katoombagroup.org](http://katoombagroup.org).

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## The Cascade Agenda: A Call to Action<sup>2</sup>

Last summer I had the opportunity to intern for the Cascade Land Conservancy and help synthesize the values, concerns, and ideas of more than 4,500 people across Pierce, King, Kittitas, and Snohomish counties to envision a 100-year program in conservation and development for the Central Cascades region. As the region continues to grow, easily doubling to more than 7.5 million residents over the next 100 years, our constituents asked how we can preserve our quality of life for future generations.

The Cascade Agenda is the culmination of this dialogue, but in reality it is only the beginning. This long-term vision creates a working document to conserve over 1.26 million acres of land from the Puget Sound to the Columbia River with market-based tools such as **conservation easements**<sup>3</sup> and transfer of development rights. Congress may need to take action to institute another important tool, tax-exempt **forest conservation bonds**,<sup>4</sup> to help make this goal a reality.

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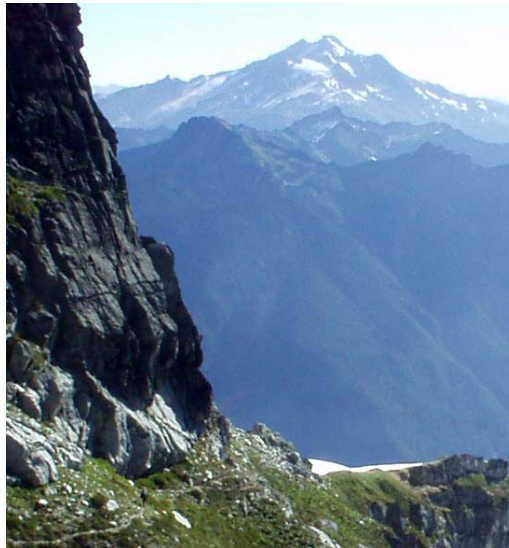
<sup>2</sup> For more information about the Cascade Agenda, visit [www.cascadeagenda.org](http://www.cascadeagenda.org)

<sup>3</sup> Conservation easements allow landowners to sell the right to develop the land in perpetuity and pay less taxes as a result.

<sup>4</sup> Forest conservation bonds are tax-free bonds used for conservation purposes. NGOs such as Cascade Land Conservancy could issue these bonds to finance the acquisition of forest land.

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## Where in Washington?



Be the first to name the mountain in the distance and win a prize. Hint: It's a volcano.

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## In the Next Issue

- Environmental regulations can be innovation-friendly
- “Correctionary” taxes and the double dividend?

For more information about the author, visit [www.people.cornell.edu/pages/jps59](http://www.people.cornell.edu/pages/jps59).  
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