11/22/99

KUFM / KGPR

T. M. Power

The "Economics" of Natural Resource Development and Preservation

The economics of natural resource policy is back in the headlines again. The Forest Service is holding hearings on the Clinton Administration's proposal to protect most remaining National Forest roadless areas. In addition, the Army Corps of Engineers is evaluating proposals to remove dams on the lower Snake to assist salmon and steelhead recovery. Lots of conflicting economic claims are being thrown around in the process.

The result of this babble of economic assertions is often confusion, not enlightenment. Many attribute this to the nature of economics or, even, of economists, the chuckling suggestion being that economists really do not have the tools to come to any firm conclusions about much of anything.

The real problem with "economics" may be quite different. Almost every one of us has our own definite ideas about the economic circumstances in which we find ourselves embedded. This is not surprising. Our lives and livelihoods are intimately connected with the local economy. Because it touches us all in supportive or disruptive ways, there are few of us who have not been learning "economics" all our conscious lives, beginning with the conversations of our parents and grandparents that we overheard.

It is the conflict between this popular but informal "folk economics" and the professional economic analysis of the sort for which Nobel prizes are given that leads to a lot of the confusion surrounding natural resource policy.

If we look at how these two different types of "economics" look at job impacts, the differences are dramatized. Many of those worried about the "economics" of a change in natural resource policy are primarily worried about the impacts on local employment: Will people lose their jobs? Will new jobs be created? To them, the chief cost or benefit of a proposed change is the loss or gain in jobs.

To the professional economist, this has things reversed. New jobs represent a demand for a scarce resource. If workers are employed in this particular project, they cannot be employed elsewhere. Their wages measure the opportunity cost, what they could have produced elsewhere, of employing them on this project. That is, those wages are a measure of a cost, not a measure of a benefit. Wages are just like the cost of the steel or the lumber going into a building: a cost of the project.

So at the start there is a conflict between the popular folk economics and professional economic analysis on the sign to be attached to employment. Should it be positive or negative? It is no wonder that there is little agreement in the economic evaluations that begin with such fundamentally different assumptions.

Professional economists begin by assuming that if workers are not working on one project they will be working on another. Valuable resources do not sit around unemployed for long. The factual basis for the professional economists' full-employment approach is the fact that despite literally tens of millions of jobs being lost over the last couple of decades, the unemployment rate declined, not increased. Workers laid off in one job take up employment in another. A loss exists only if the new job is less productive than the old one. In general, however, that will not be the case, resources move from less productive to more productive employment. Because of technological change, the part of the labor force we have needed in agriculture, mining, and heavy manufacturing has steadily declined. Keeping the workers in those jobs would have meant producing more products than there was a demand for. That would not have been very productive.

Local economic boosters look at local jobs impacts quite differently. Job losses are just that, permanent economic losses to the community. And new jobs are permanent gains. Local boosters do not care if people who used to be working at other jobs outside the region fill the new jobs. A job may have been lost elsewhere, but it has been gained locally and that is all that counts. To them, it is not a wash; it is a gain. More local economic activity is always better than less. Similarly, if jobs are lost locally, local boosters do not care if the workers are re-employed in other activities. If those workers leave the region, it is seen as a loss to the region. Even if they do not leave and find new jobs locally, the local economic dreamers believe that if those jobs had not been lost, the growth in local employment would have been even faster and, in their minds, that would be better.

To most professional economists, this is just a struggle to determine the geographic distribution of economic activity, a struggle that has very little to do with overall improvements in the national economy. In addition, the shift of economic activity from one location to another has some costs associated with: costs in the area losing population as well as costs in the area gaining population. There is no economic theory that says that warehousing more warm bodies in one location represents a net gain to the local area. If previously unemployed workers in the local area get the jobs and no unemployment is created elsewhere, clearly there is a net gain as unemployed or underemployed resources are put to work. But if the jobs go, as they usually do, to in-migrating newcomers, it is not clear that there is necessarily a net gain to the community. That will depend upon the costs associated with that growth in the form of increased infrastructure needs, increased congestion and pollution, and increased land costs. Depending upon the receiving community's preferences, it may or may not represent a gain.

Local boosters and folk economics implicitly assume that any job loss leads to permanent unemployment or underemployment. Professional economists implicitly assume that at worst labor is temporarily unemployed as it moves to sectors where there is a higher demand. The actual performance of our economy clearly supports the professional economists' point of view. Neither the nation nor our communities are filling up with a reservoir of unemployed workers. The concern of the Federal Reserve Board and local businesses is that a shortage of labor is growing, not a surplus.

Why then does the folk economic view resonate more strongly with people? The answer is that in a constantly changing market economy there is considerable economic insecurity. We do not know how long our jobs will last, how difficult it will be to find a new job, nor what the cost of the transition will be. There are significant emotional and out-of-pocket costs associated with changing jobs involuntarily. When there is only a minimal safety net in place, we fear the worst and don't want to test how resilient the local economy and we actually are. It is this very real economic insecurity that supports the folk economic view of impending unemployment every time the economy or economic policy changes.

But we cannot freeze the local economy in the form we found it when we first entered the labor force as kids. That would be a prescription for stagnation and decline. Similarly, it would be a tragic waste to sacrifice irreplaceable gifts of nature in order to temporarily maintain the uneconomic exploitation of our natural resources. In a dynamic economy, labor needs to be able to move smoothly from contracting opportunities to expanding opportunities. Ultimately we cannot stop that movement. Temporarily doing so is wasteful. The appropriate role for government is not to save jobs in contracting industries but to reduce the human cost of shifting from on job to another. Most of those shifts are made relatively painlessly and voluntarily as workers pursue more attractive opportunities. Where there are significant barriers to these labor movements, public economic policy should focus on providing the transitional support. That keeps public economic policy from being turned into one gigantic and wasteful make-work project!