



Impact

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A Pacific Research Institute Publication

PRI ON THE ENVIRONMENT

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Pacific Research Institute

Gala

ANNIVERSARY DINNER

Keynote Speaker

BRIT HUME

Sir Antony Fisher Freedom Award Recipient

Governor Pete Wilson

Wednesday | November 19, 2014 | 6:00 pm
The Fairmont, San Francisco

Dear Friends,



As we look forward to a busy autumn season, this special issue of *Impact* has given us cause to reflect on the incredible work PRI has done in environmental and energy policy since the early '90s. The following pages feature our latest research in energy regulation, the environment, urban development, and California agriculture. In each of these areas, PRI champions policies that strengthen both our environment and society through private property rights, the rule of law, and market-based solutions.

This issue highlights the impressive work of PRI Senior Fellow Steve Hayward, Ph.D., whose *Index of Leading Environmental Indicators* and web-based *Almanac of Environmental Trends* have offered an annual assessment of environmental policy. Dr. Hayward's research identifies environmental policies in need of reform while also highlighting success stories such as the marked improvement in our nation's air quality in the past 25 years. Such victories, when coupled with a clear-eyed assessment of our environmental and energy policy, present a more accurate picture of America's commitment to our abundant natural resources.

We also feature an interview with PRI Senior Fellow Dr. Wayne Winegarden, co-author (with Dr. Marc Miles) of the *50 State Index of Energy Regulation* (August 2014). Dr. Winegarden's energy index helps policymakers identify the precise impact of energy regulation on the economy in each of the 50 states. The results are illuminating, especially for big energy-producing states like California, which came in second to last in a ranking of states based on economic efficiency.

Speaking of California, PRI keeps a sharp eye on environmental policy close to home, as our feature on Wendell Cox's *Evaluation of Plan Bay Area* attests. Mr. Cox's report exposes Plan Bay Area's regulatory overreach and its detrimental consequences both for Bay Area residents and the metropolitan economy. Mr. Cox's report was published in 2013 and was very influential in raising awareness of this overpromising plan. A summary and update of the Pacific Legal Foundation's lawsuit against Plan Bay Area is included in this issue of *Impact*.

As we celebrate our 35th anniversary this year, PRI remains steadfast in its commitment to honest environmental stewardship. Our research acts as a check against partisan, alarmist policies designed to consolidate power and control in Sacramento and Washington, D.C. At PRI, we are "policy entrepreneurs putting ideas into action." Thank you for your commitment to the ideas we both share - limited government, competition, and individual responsibility.

Sincerely,

A handwritten signature in black ink that reads "Sally". The signature is fluid and cursive, with a large, stylized "S" and a trailing flourish.

Sally C. Pipes
President and CEO



The Pacific Research Institute's **Focus** on the **Environment**

The environment has always been a key concern for the Pacific Research Institute, as proper stewardship of our natural resources is a fundamental component of sound political and economic policy. Throughout its 35-year history, PRI has championed policies that strengthen our environment and our society together through private-property rights and market-based solutions to environmental problems.

This year, PRI will publish a *California Water Use Policy Study*, authored by PRI Policy Fellow Dr. Amy Kaleita and PRI Senior Fellow Dr. Ben Zycher. The study will include a detailed economic analysis of water policy that will focus on areas of ongoing concern in California, including: federal water issues; the costs of various environmental regulations affecting water; the lack of reasonable cost-benefit analyses in determining water access, usage, and pricing; and the development of water policy in the state. The study also gives an assessment of California's water supply and its current water infrastructure. It will shed light on which policies are working and which are leading California down the wrong path. Moreover, the study will discuss market-based policy reforms that are necessary if the state is to rationalize its water system. Dr. Kaleita will also complete short investigative briefings on the California dairy industry and on ethanol.

In California, agriculture historically represents an important part of the state's political and economic structure. California is responsible for 11 percent of total agricultural sales in the United States, the largest share in the nation. Over the years, PRI has produced reports and briefs focusing on the agricultural sector. As we go forward, we are planning to continue exploring and reporting on key issues facing this sector.

Dr. Steven Hayward, a nationally renowned scholar in the environmental arena, has been a Senior Fellow at the Pacific Research Institute since 1992. He is the author of PRI's *Almanac of Environmental Trends*, a major study on the state of the environment released each year on Earth Day. He is also nationally recognized for his books, *The Real Jimmy Carter* (Regnery Publishing, 2004), *The Age of Reagan: The Fall of the Old Liberal Order 1964-1980* (Prima Publishing, 2001), and *The Politically Incorrect Guide to the Presidents* (Regnery, 2012), among others.

Dr. Hayward writes frequently on a wide range of issues, including environmentalism, law, economics, and public policy, and has published dozens of articles in scholarly and popular journals. He is the Ronald Reagan Distinguished Visiting Professor at Pepperdine University's Graduate School of Public Policy, a former Weyerhaeuser Scholar at the American Enterprise Institute, an





Dr. Steven Hayward

adjunct fellow of the John Ashbrook Center and a former Bradley Fellow at the Heritage Foundation, Weaver Fellow of the Intercollegiate Studies Institute, Earhart Fellow, and Olive Garvey Fellow of the Mont Pelerin Society. Dr. Hayward is also a regular blogger for *Powerline*.

A signature publication of PRI for 16 years was the ***Index of Leading Environmental Indicators***, published annually by the Pacific Research Institute starting in 1993 and co-published with the American Enterprise Institute from 2003 to 2009.

Dr. Hayward's highly successful film, ***An Inconvenient Truth . . . or Convenient Fiction?***, was released in 2007 as a rebuttal to former Vice President Al Gore's Oscar-winning film, *An Inconvenient Truth*. In the film, Dr. Hayward surveys the available scientific evidence, brings attention to the facts, and attempts to thwart efforts by environmental extremists to dominate the debate. The film cuts through the media hype and reveals the *real* inconvenient truth: that the science is far from settled, and that predicting global climate change is as precise as predicting next week's weather. *The American Spectator* described PRI's documentary as "a 50-minute dose of reality."

Dr. Hayward notes that "most environmental commentary dwells on the laws and regulations we have adopted to achieve our goals, but it is essential to understand the more important role of technology and economic growth in bringing about favorable environmental trends." Dr. Hayward continues: "PRI has worked hard to illustrate the progress that has occurred and to highlight the lessons that can be learned from environmental improvements, including the correlation of wealth and prosperity and environmental quality and the centrality of property rights and the rule of law to environmental protection."



An Interview with Dr. Wayne Winegarden

PRI Senior Fellow and Author of the
50 State Index of Energy Regulation

An Interview with Dr. Wayne Winegarden, PRI Senior Fellow and Author of the *50 State Index of Energy Regulation*

Historically, state energy regulations have focused on utilities, gas stations, motor-vehicle fuels, and the level of energy consumption. However, the energy market continues to evolve in remarkable ways, and regulations are changing in response. State regulations now also focus on how electricity can be generated and the types of energy products consumers can use. Even the regulation of utilities has changed. Seventeen states now separate electricity generation and transmission in order to give residents and businesses a choice from whom to purchase power. As a result, regulations increasingly affect independent electricity generators as well. Amidst all this change, state regulations are altering the evolutionary path of the energy industry. To evaluate the impact of state regulation requires a consistent framework that distinguishes between public policies that have positive effects and those that have negative ones.

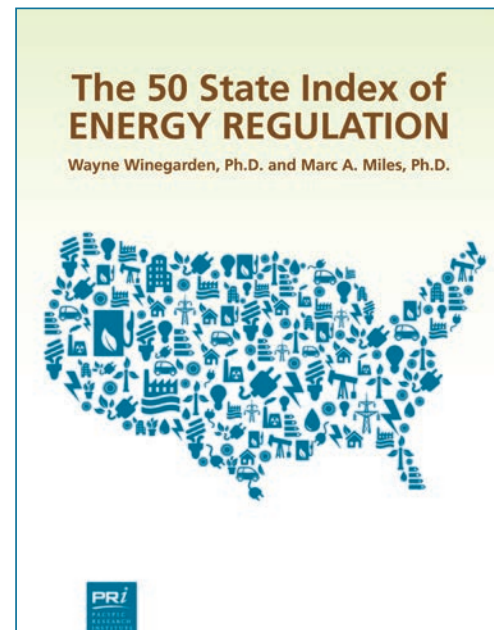
PRI recently sat down with PRI Senior Fellow Dr. Wayne Winegarden to discuss the highlights of his new (August 2014) *50 State Index of Energy Regulation*, co-authored with Dr. Marc Miles.

Q) Dr. Winegarden, describe the genesis of the *50 State Index of Energy Regulation*.

A) The idea of producing this *Index* came when we were thinking about how to measure and compare energy regulations in each of the states. We decided to focus on energy because of its importance to the state economies and to the national economy, and because regulation in this field can significantly impact business performance and economic growth. We discovered that those states with more regulations have lower economic growth than those with fewer regulations. However, it is very difficult to isolate the effects of regulation. Many specific regulations have a large impact on certain sectors of the economy, but are less problematic for others. For example, the decisions of companies that don't hire minimum-wage workers will be less affected by minimum-wage laws than the decisions of companies that do.

In designing the *Index*, in order to eliminate “noise,” we focused on one metric: economic efficiency. Economic efficiency is defined as allocating resources to their most productive uses. Essentially, regulations that lead to lower costs or increase the available number of options for energy production, consumption, and distribution will serve to promote economic efficiency. Regulations that lead to higher costs or reduce the number of options have the opposite effect: they reduce economic efficiency.

Economic efficiency was measured over seven sets of variables in order to judge the impact of energy regulations in each state.



“The *Index* shows that state regulations do have a profound effect on the economy and its growth.”

Q) What are the questions that form the core of the *Index*'s scoring and rankings?

A) The 50 states' energy regulations are evaluated according to seven component indices or sets of questions:

- What are the degrees of retail choice among energy suppliers for consumer, industrial, and commercial customers?
- How stringent are restrictions on electricity production?
- Are there restrictions on the transportation and transmission of energy?
- What green-technology subsidies does the state provide, and how do these affect economic efficiency?
- What are the regulations designed to reduce energy consumption, including appliance and building-code standards, and does the resulting drop in energy use trigger decoupling or lost revenue recovery?
- Do producers have flexibility to allow utility prices to fluctuate with market conditions? Can utilities easily adjust prices to reflect the costs of new plants and the rise in wholesale prices? What is the ease of constructing new utility plants?
- How do regulations affect motor vehicles? How much of the gasoline price is state taxes? Are station owners allowed to offer self-serve pumps? Must refiners include renewable fuels in every gallon of gasoline? Are there idling or emissions standards that must be met? Are the fuel-economy standards in a particular state higher than federal standards?

A state's index score is the simple average of its seven component index scores. Comparing the scores for the 50 states generates the ordinal rank.

Q) What do the most economically efficient states have in common?

A) One word: *growth*. These states have much higher economic growth rates on average. From another perspective, looking at the results geographically, the West Coast and the Northeast tend to have more economically inefficient regulations. Interestingly, the *Index* reveals that it doesn't matter whether a state is a big producer of energy or not. States that are major producers don't necessarily promulgate regulations that promote greater economic efficiency.

Q) Will these findings change the conversation about energy regulation?

A) We hope they will help us to achieve a more informed debate about the tradeoffs at play here. The *Index* shows that state regulations do have a profound effect on the economy and its growth. So it helps us to have a better understanding of the balance between environmental concerns and economic prosperity. It promotes debate about the necessary economic tradeoffs, which is valuable in itself. People may disagree about which tradeoffs are acceptable, but at least we will have had an honest discussion about them.

With the new federal EPA regulations, energy might become federalized, thereby making state-by-state comparisons less interesting. As centralization accelerates, it becomes increasingly difficult to compare states and isolate the effects of regulation, which is unfortunate.

State	Retail Choice	Electricity Production	Transportation and Transmission	Green Technology Subsidies	Energy Consumption	Producer Flexibility	Motor Vehicle Regulations
Alabama	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Alaska	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Arizona	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Arkansas	1.0	1.0	1.0	1.0	1.0	1.0	1.0
California	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Colorado	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Connecticut	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Delaware	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Florida	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Georgia	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Hawaii	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Idaho	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Illinois	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Indiana	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Iowa	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Kansas	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Kentucky	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Louisiana	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Maine	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Maryland	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Massachusetts	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Michigan	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Minnesota	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Mississippi	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Missouri	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Montana	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nebraska	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nevada	1.0	1.0	1.0	1.0	1.0	1.0	1.0
New Hampshire	1.0	1.0	1.0	1.0	1.0	1.0	1.0
New Jersey	1.0	1.0	1.0	1.0	1.0	1.0	1.0
New Mexico	1.0	1.0	1.0	1.0	1.0	1.0	1.0
New York	1.0	1.0	1.0	1.0	1.0	1.0	1.0
North Carolina	1.0	1.0	1.0	1.0	1.0	1.0	1.0
North Dakota	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Ohio	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Oklahoma	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Oregon	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Pennsylvania	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Rhode Island	1.0	1.0	1.0	1.0	1.0	1.0	1.0
South Carolina	1.0	1.0	1.0	1.0	1.0	1.0	1.0
South Dakota	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Tennessee	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Texas	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Utah	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Vermont	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Virginia	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Washington	1.0	1.0	1.0	1.0	1.0	1.0	1.0
West Virginia	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Wisconsin	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Wyoming	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Q) How does “fracking” play into this balance between economic prosperity and environmental concerns?

A) Some of the anticipated growth in places like North Dakota is due to the extraction of shale gas via hydraulic fracturing, known as “fracking.” We could not include fracking issues (or any regulations on extraction) in the *Index* because of data limitations—at this point there are no consistent and comprehensive state regulatory comparisons as far as we were able to determine.

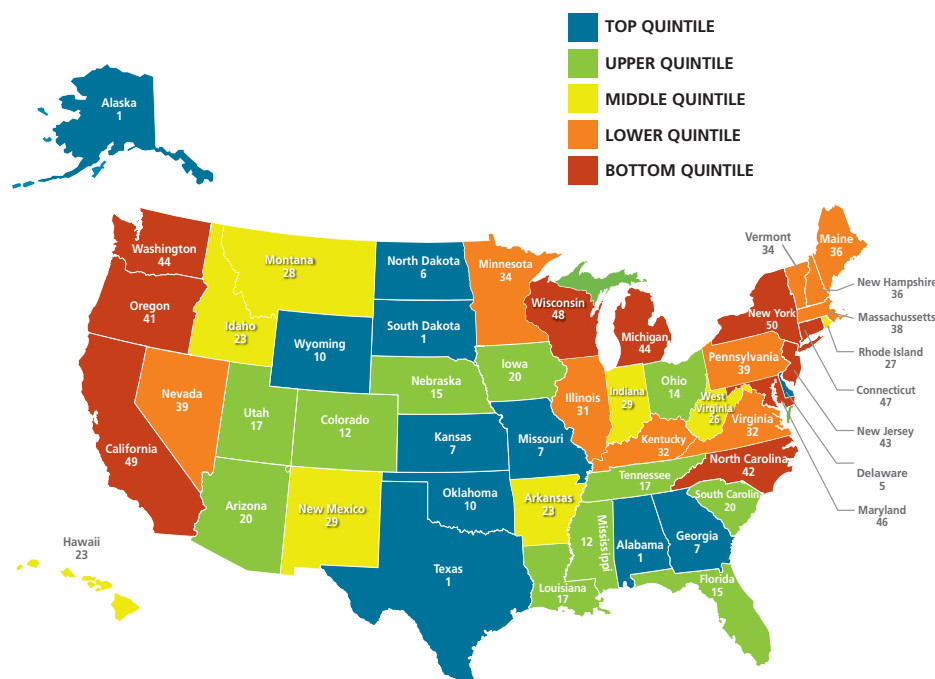
Yet despite their exclusion from the *Index*, state regulations on extraction activities are obviously meaningful. For instance, while some states (such as New York and now possibly California) are considering banning fracking, other states (such as North Dakota) are embracing this technology development. The regulatory uncertainty in places like New York leads to economic inefficiencies and lost potential economic growth; while the regulatory certainty in North Dakota is fostering greater economic efficiencies, which are paying large dividends.

Q) Do you plan to publish indexes for other sectors?

A) Yes. We hope that energy will be the first of many. We are currently looking at regulations on small business and on telecommunications.

As shown in the color-coded map below, states on the West Coast, in the Northeast, and in the upper Midwest have the most economically inefficient energy regulations. California, a major energy-producing state, ranks second to last, beaten out only by New York. In contrast, states in the South and in the central part of the country have regulatory environments more conducive to efficient allocation in production and consumption of energy.

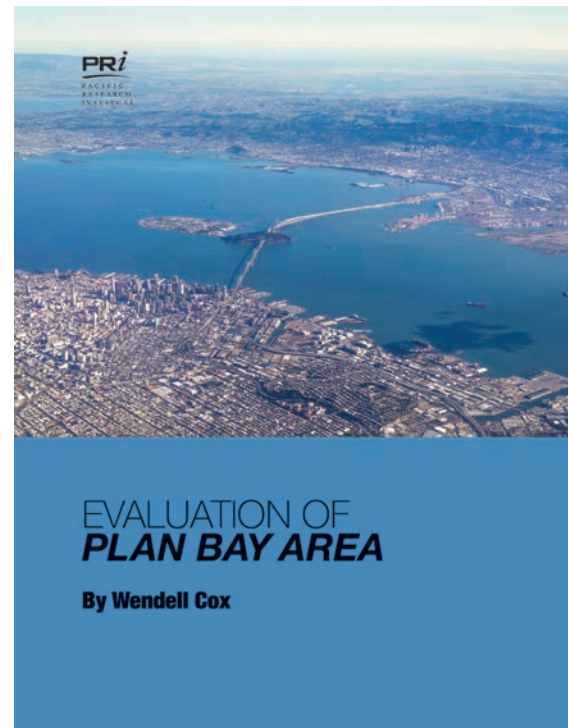
The Relative Economic Efficiency of State Energy Regulations



The complete Index is available on PRI's website, www.pacificresearch.org.

LOCAL IMPACT:

Pacific Research
Institute Senior
Fellow Wendell Cox
Exposes the
Problems with
Plan Bay Area



When planning officials in the San Francisco Bay Area adopted a plan to radically transform transportation and land use in the region, the Pacific Research Institute stepped up as a leading voice against the overreaching and overpromising initiative. *Evaluation of Plan Bay Area*, released in June 2013 and authored by Wendell Cox, a PRI Senior Fellow and renowned consultant on public policy, planning, and transportation issues, exposes the proposal's regulatory overreach and its detrimental consequences both for Bay Area residents and for the metropolitan economy. In addition, Mr. Cox shows that by 2035 improved fuel efficiency will more than meet the requirements for reduction of greenhouse-gas emissions for the Bay Area, thereby eliminating the need for the extreme measures proposed in the plan.

Plan Bay Area, developed by the Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC), sets out a vision for transportation and land use over the next quarter-century in response to the California

Sustainable Communities and Climate Protection Act of 2008. Under this act, each of the state's regional planning areas – including the Bay Area – is required to produce a long-term plan to reduce greenhouse-gas emissions. The Bay Area has been tasked by California's Air Resources Board (ARB) with reducing greenhouse-gas emissions by 15 percent by 2035.

"Plan Bay Area takes behavior modification to a new intensity," Mr. Cox concludes. The plan seeks to reduce emissions by reducing automobile use and by forcing people to live in smaller houses and at much higher density. More than three-quarters of the new houses built between now and 2040 would have to be built in high-density, transit-oriented developments, known as "priority development areas." According to Mr. Cox, "Plan Bay Area advances the delusion that Americans are tired of the detached house, suggesting that fewer will be needed by 2040, even with a larger population."

Development constraints will lead to unaffordable housing.

Mr. Cox notes that the proposed Plan Bay Area “would allow little or no new development beyond the urban fringe, where cities have grown naturally since the beginning of time. . . . [S]imilar, though less draconian, constraints on urban-fringe development have been employed for 40 years in the Bay Area. The result has been to more than double house prices relative to incomes, making home ownership affordable only to the affluent.” He adds, “Even after playing musical chairs with the lives of seven million current residents and a million additional residents who could move here by 2040, Plan Bay Area predicts that people will drive cars just about as much as they do now. But it’s critical to note that much of this traffic would be concentrated around the priority development areas, which would intensify traffic congestion and air pollution and its relative health impacts.”

Fuel economy

The U.S. Department of Energy forecasts that because of improved refining techniques, automobile fuel economy will improve significantly by 2040. This improved fuel economy would reduce per capita greenhouse-gas emissions 49 percent by 2040, more than 2.5 times the 15 percent required by 2035, after an adjustment including the 2035–2040 period. “This puts an end to the shibboleth ‘more driving will negate any fuel economy improvements’ since overall emissions in the Bay Area would fall 40 percent,” adds Mr. Cox. He says that the impact of these technology improvements is so great that little of the improvement in greenhouse-gas emissions over the next quarter-century would be attributable to Plan Bay Area’s behavior-modification strategies.

Mr. Cox concludes, “Improving technologies provide California and its planning agencies with an important opportunity to turn their backs on the policy overreach that has already produced an extraordinarily high cost of living and some of the nation’s worst traffic congestion. San Francisco Bay Area planning officials should instead focus on facilitating the aspirations of present and future residents.”

Plan Bay Area and the Pacific Legal Foundation

With the publication of Mr. Cox’s *Evaluation of Plan Bay Area*, PRI had a significant impact on the debate over the contentious Plan Bay Area report. Multiple California organizations joined PRI in the efforts to inform the public of this bureaucratic overreach. Among them, the Pacific Legal Foundation (PLF) challenged Plan Bay Area in court. PLF’s lawsuit contended that ABAG and MTC violated the California Environmental Quality Act (CEQA) by failing to justify Plan Bay Area’s high-density development scheme, and by refusing to consider the feasibility of a less restrictive alternative.

The PLF challenge had its first hearing in Superior Court in Oakland in June 2014. As in previous CEQA cases, the trial court issued a preliminary ruling in advance of the hearing. The court ruled in favor of the plan as presented by the agencies, essentially saying that the authors had generally followed appropriate procedures. PLF will appeal the decision if the court sustains its preliminary ruling.

PLF’s main argument mirrors that which Mr. Cox makes in his analysis of the plan: new fuel-efficiency standards will achieve the plan’s goals without mandating high-density housing and additional government-provided transport services. PLF claims that the agencies never evaluated those new standards, and, as a result, their Environmental Impact Report (EIR) was deficient.

PLF also focused its argument on an important procedural matter. The regional agencies claimed that the land-use component (high-density housing) must be treated separately from ARB’s air-quality scoping plan (which dealt with auto emissions). PLF argued that that distinction constituted an “underground regulation” and was invented by the agencies independent of proper regulatory rule-making to serve their purposes. While technical, this stretch by the agencies is a critical violation that the courts must stop. The agencies can’t invent self-serving distinctions and hold the plan’s evaluation to them.

More topics will be introduced on appeal, and PRI will continue to keep a sharp eye on this important case.



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About Pacific Research Institute

As we celebrate our 35th anniversary this year, the Pacific Research Institute (PRI) continues to champion freedom, opportunity, and personal responsibility by advancing free-market policy solutions. It provides practical solutions for policy issues that impact the daily lives of all Americans, and demonstrates why the free market is more effective than the government at providing the important results we all seek: good schools, quality health care, a clean environment, and a robust economy.

Founded in 1979 and based in San Francisco, PRI is a non-profit, non-partisan organization supported by private contributions. Its activities include publications, public events, media commentary, including opeds, radio and television interviews, as well as article citations, community leadership, invited legislative testimony, *amicus* briefs, and academic outreach.

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