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North Carolina is consistently ranked among the best states in which to do business. Magazines including Forbes and Site Selection, as well as CEOs who are polled on their views of the best states for business, have all praised North Carolina as a business-friendly environment. Factors like the tax burden, the quality of the workforce, infrastructure and transportation and the quality of life play into these rankings. The environment is an important component of quality of life and people prefer a clean environment to a dirty one. But do stronger environmental policies hinder job growth and the economy?

A purely economic argument suggests that placing environmental restrictions on firms, such as reducing air emissions, will restrict firms’ decisions and decrease their potential profits. Taking that argument to the extreme suggests stronger environmental policies correlate with decreased economic performance. This idea has been prevalent in the national media lately because of two EPA rules. The first is the proposed ozone standard, which would be reduced from the 2008 level of 75 parts per billion (ppb) to somewhere between 60-70 ppb. The second is the EPA’s proposed Clean Power Rule, which would regulate carbon for the first time in the United States.

Steady progress toward clean air requires regulation,
but what magnitude of economic gains are sacrificed if we continue to protect public health? When you ignore anecdotes and special interest “studies” suggesting economic gains will be forfeited, independent economic analyses from MIT and Harvard show economic performance has not been significantly or systematically affected by environmental regulation. While individual firms, businesses and industries might be adversely affected, the overall impact on the economy is negligible. Research shows business learns from trends to anticipate future directions in policy and adjust - whether that is in the form of job shifting, such as moving displaced workers to other firms within an industry or to firms in other industries. Over the long run, however, there is no net loss of economic performance.

How do we explain this? After new environmental standards are imposed, the immediate compliance response is to increase capital spending to meet the requirements. Business and industry adjust to the environmental compliance requirements, and a large percentage of the expense goes back into the economy to pay for goods and services. Over time, new environmental products and services evolve and can lead to spinoff technologies and highly-skilled workers.

Back in the early 1990s, Michael Porter, the Bishop William Lawrence University Professor at Harvard Business School, even went further suggesting that well designed environmental regulation could actually enhance competitiveness and innovation (the so-called “Porter” hypothesis). Since Porter’s original thesis, others have sought to confirm its validity, the most recent being the Center for International Governance Innovation. The results of this research are clear: environmental regulation that grandfathers older, unregulated plants incentivizes firms to continue using the older polluting plants instead of investing in the newer more environmentally-friendly ones. This may actually create an environmental problem if aggregate emissions levels rise.

Of course, environmental regulations such as the Clean Power Rule and the ozone rule do have real impacts on individual businesses, communities and industries. Still, the real debate should be about how to make these rules the most cost-effective rather than whether the economy will be crippled if they are enacted. Economic impacts from the rules are limited

Innovation
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to specific industries and short-term. Environmental regulation can fuel operational efficiencies, improve product innovation and provide cost savings across the economy. In the end, the public demand for a strong environment and quality of life will push business to internalize the external environmental costs. We should see more of that story in the news instead of the narrower, more limiting viewpoint.

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What interests you about the natural and built environments in our state? Let us know, and it could be a topic for a future IEI Environments newsletter.