

THE PORTER HYPOTHESIS AND THE ECONOMIC CONSEQUENCES OF ENVIRONMENTAL REGULATION: A NEO-SCHUMPETERIAN APPROACH by Thomas Roediger-Schluga, 2004. Elgar, 368 pp, £69.95 (hbk). ISBN 1 84376 644 2

Few doctoral theses make good books. The amount of detail in a thesis tends to obscure central messages and few readers of books want to read the minutiae that show the doctoral candidate's scholarship. It is a tribute to Thomas Roediger-Schluga that he has turned his Austrian doctoral thesis into a very fine book, written in a clear style, with a command of English that should be envied by British students, and with a good story to tell. One of the irritating things to scholars who study a subject deeply is the public and media attention afforded to authors with established names who dip into a subject briefly, make controversial and unsubstantiated claims, command the media headlines and then go back to what they were doing beforehand. Michael Porter belongs in that category. In the early 1990s he claimed in several papers that nations with rigorous and strict environmental policies could secure a competitive advantage because the regulations stimulated technological advances that would raise labour and capital productivity and thus reduce costs of production. Unfortunately, as Roediger-Schluga notes, Porter made only half-hearted efforts to validate his claim, which, if true, would make strict environmental policy a 'double dividend' activity, securing both competitive gains and environmental improvement. It is a nice story and one wants it to be true, but one immediate problem with the Porter hypothesis is that it speaks of nations securing competitive advantage, whereas economists typically have problems identifying what 'competitiveness' means for a nation. Paul Krugman (1994), in a justifiably famous essay, tried to set the record straight, but not, it seems, to much avail given governments' continuing preoccupation with competitiveness impacts as reasons for not pursuing social and environmental policies. At the industry level, the notion has more meaning and Roediger-Schluga therefore tests the Porter hypothesis by taking a painstaking look at the impact of Austrian volatile organic compound (VOC) policy on one sector: paints, coatings, printing inks and adhesives. He finds, as others have at a more aggregate level, that there is hardly any evidence to support the Porter hypothesis. Austrian VOC regulation is very strict by world standards, but compliance was secured by absorbing existing, not new, technology. The strict standards were not 'technology forcing'. As it happens, neither did they do much for pollution reduction. This feature of regulation is not uncommon and perhaps the more interesting question is why it comes about. To answer that question Roediger-Schluga embraces some modern 'political economy' models to explain why what appears to be good regulation on paper is not very effective in practice. Interest groups can be expected to assist in the design of policy so as to minimize its sectoral cost impacts, and this was the case in Austria. Politicians will embrace ineffective regulation, whilst simultaneously 'talking it up' because they do not want to offend special interest groups and, ultimately, they want to be re-elected. Roediger-Schluga also notes very similar outcomes for other widely cited examples of 'technology forcing' – the phase-out of CFCs (chlorofluorocarbons) and the 'zero-emission vehicle' (itself, by the laws of thermodynamics, a misnomer).

The attractions of this book are several. First, it offers a reasonably robust test of the Porter hypothesis. Others have cast serious doubt on the hypothesis, and its attraction is readily explained by the politicians' desire to adopt the Holy Grail of alleged 'win-win' solutions so as to minimize political disaffection. Second, anyone wanting a concise but careful overview of the literature on the effects of environmental regulation on the economy will not do better than the early chapters of this book. Third, the style and execution of the book make it readable and relevant. In an age when economists, in particular, produce impenetrable and obscure tracts, this is to be welcomed. This is a fine book and one to be very firmly recommended.

Reference

Krugman P. Competitiveness. 1994. A dangerous obsession. *Foreign Affairs* 73(2): 28–44.

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