

IS FREE MARKET ENVIRONMENTALISM “MAINSTREAM”?

Terry L. Anderson and Jane S. Shaw

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S*ocial Education*, a leading magazine for social studies teachers, recently published a feature on “economics and the new environmentalism” (Schug and Western 1997, 329–46). A group of teachers associated with the National Council of Social Studies did not like it. In a letter to the editor, they charged that the authors of the feature were promoting “free-market strategies” to solve environmental problems without giving sufficient attention to the role of government. They considered the authors’ emphasis on the role of the private sector one-sided. After all, they said, free-market approaches represent just “one school of economic thought on environmental issues” (NCSS Special Interest Group 1998, 4).

Are they right? Is free market environmentalism part of “mainstream” environmental economics, or is it just “one school”? The answer is that it may have been “one school” when it was introduced in the late 1970s, but it has become part of the mainstream. Many mainstream economists have found that the well-accepted principles that explain market behavior and underlie prosperity also explain environmental problems and offer ways to solve them.

Free market environmentalism is based on the economic way of thinking, which all economists share. Milton Friedman, a leading free-market economist, once observed that he and Paul Samuelson, a leading economist of the Keynesian school, which has more confidence in government, differ in their opinions on many topics, but they tend to speak with one voice when they talk about human be-

havior with non-economist social scientists (Gwartney and Stroup 1982, 6). Both Friedman and Samuelson share the economic way of thinking, which relies on a few useful principles. These can be summarized as follows:

1. Because of scarcity, we cannot have all that we want, so we must make choices.
2. Choices require that we give up one good to get another; in other words, all things have opportunity costs.
3. In making choices, people weigh the costs and benefits of their decisions—to themselves, but not necessarily to others.
4. Hence, incentives—the costs and benefits as people perceive them for themselves—affect individual and group decisions.

Points of Disagreement

While these principles are at the heart of economics, applying them does spark disagreements over how well market transactions (that is, trades made voluntarily) incorporate the costs and benefits of individual decisions. Do individuals really bear the costs of their decisions and reap the benefits? Or are some costs and benefits borne and received by “outside” parties? And, if market decisions do leave out some costs and benefits, what should be done about it? These questions frequently arise in connection with environmental matters.

For example, when a person purchases a pound of bacon, the market price reflects the costs of marketing, transporting, or butchering the pig. But it may not reflect the costs to the neighbors of odor wafting from a large swine feeding operation. When a person donates money to purchase wildlife habitat, the individual receives satisfaction, a benefit, from the donation. But others get benefits, too, from the increase in wildlife or the preservation of open space.

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Thus, those who do *not* donate get a “free ride” from those who do. To summarize economists’ views, the concern is that when costs are not taken into account, too much of a good thing such as bacon will be produced because others bear some of the costs. And when benefits are not taken into account, too little of a good thing such as wildlife habitat will be provided because the benefits are received by “free riders” who do not have to pay for them.

In the past, many mainstream economists took the position that private decisions fail to consider many of the environmental costs and benefits of a transaction. They called such situations “market failures” and thought governmental decisions could correct them by taking more costs and benefits into account. They assumed that government officials are not motivated by self-interest in the same way that individual market actors are.

Over the years, however, many economists discovered that in addition to market failures there are government failures. The Keynesianism of Paul Samuelson, which was skeptical of markets and confident in governments, has given ground to Milton Friedman’s free-market economics, which is skeptical of government and confident about markets. Both views are mainstream today. In fact, Keynesianism, according to many, is on the wane.

Helping to bring skepticism about government’s role into the mainstream were new schools of economics such as Austrian economics, public choice economics, and the new institutional economics—all of which have influenced free market environmentalism (Anderson 1982). Like Samuelson and Friedman, leaders of these newer schools have been awarded Nobel prizes: F. A. Hayek for Austrian economics, which emphasizes the difficulty of central planning, James Buchanan for public choice, which applies the tenets of economics to the behavior of people in government, and Douglass North and Ronald Coase for new institutional economics which emphasizes the importance of property rights. Mainstream economics is much richer than it was a few decades ago because of these insights.

When it comes to environmental economics, the change has been especially dramatic. Keynesian economist Lester Thurow (1980,

105) may well have reflected the views of the mainstream of the profession in 1980 when he wrote that a clean environment consists of economic goods and services that “cannot be achieved without collective action.” But free market environmentalists have shown the rest of the profession that this is not necessarily true. The prime cause of environmental problems is not “market failure,” as many economists thought, but the absence of markets—more specifically, the absence of private ownership, the foundation of markets. While economists have long known that transactions based on private property are imperfect, many now recognize that the absence of private property and therefore of markets distorts incentives even more than do problems of incorporating costs and benefits in market transactions.

Tragedy of the Commons

The idea that something that no one owns is badly treated goes back at least as far as Aristotle, who wrote that “what is common to many is taken least care of, for all men have greater regard for what is their own than for what they possess in common with others” (Durant 1939, 536). We are indebted to a biologist, Garrett Hardin, for articulating it anew. The “tragedy of the commons,” described in a seminal 1968 article in *Science*, underlies most environmental problems (Hardin 1968, 1243–48).

Hardin describes a commonly-owned pasture. In such a pasture, the individual who adds a cow (when the pasture is full) receives the full benefit of the additional cow, but does not pay the full cost of using up the pasture. That cost is shared among all the villagers who own livestock. The result, as long as access is open to all, will be overgrazing and ultimately destruction of the commons.

In other words, the individual who adds another cow receives full benefits but does not pay the full cost of his or her action of adding the cow. In a commons with open access, each person has an incentive to take action that is costly for the group as a whole be-

cause the cost is shared while the benefits are individually enjoyed. The tragedy occurs because perverse incentives lead to destruction.

For economists, the “tragedy of the commons” illustrates the problems of the costs and benefits of decisions. Everyone who has spent much time in public parks knows that people treat them negligently, allowing litter to accumulate and crowding to occur. Park visitors have little incentive to keep them clean—anyone, at any-time, can mess them up again—and there is no owner who benefits financially by making sure that the experience pleases visitors (and thus is not too crowded).

Air and water are polluted because they, too, are a commons. They have no owners to keep people from using them for waste, so polluters gain the benefits of getting rid of their waste while sharing the cost with many others.

Another example of the commons is wildlife. The bison came close to extinction and the passenger pigeon died out because they were commonly owned. Hunters obtained the benefits of killing what they could, while the cost—the gradual decline in numbers to near-extinction—was shared among everyone. Hunters wanted them, and because they were commonly owned no one had an incentive to protect a herd or a flock for the future. Today, much wildlife is endangered because it is a commons.

The Role of Government

The debate over free market environmentalism centers on how to eliminate the tragedy of the commons or, more broadly, how to get the incentives right. Should a government, with coercive powers and collective decision-making, regulate the commons? Or should efforts be made to allow private property to regulate the commons? In the past, most mainstream economists assumed that the government could regulate the commons, including the air and water that had become polluted. But today economists realize that government regulation poses severe problems of its own.

Joseph Stiglitz, a prominent Keynesian economist who served as chairman of President Clinton's Council of Economic Advisers, wrote after his stint in government that he had achieved a "better understanding of government failures to counterbalance the market failures that have occupied so much of my thinking as a professional economist" (Stiglitz 1998, 4). He went on to say that "misaligned incentives" were at the heart of the difficulties he faced as he tried to improve government policies. Such incentives "can induce government officials to take actions that are not, in any sense, in the public interest" (Stiglitz 1998, 5).

In his economics text, published in 1993, Stiglitz discussed the problem as well. "Government is not some well-intentioned computer that only makes impersonal decisions about what is right for society as a whole," he wrote. "Instead, government is a group of people—some elected, some appointed, some hired—who are intertwined in a complex structure of decision making." When governmental solutions are proposed, "it is always appropriate to inquire into not only the extent of the problem, but also whether government can effectively address it" (Stiglitz 1993, 599).

The mainstream reevaluation of the role of government exemplified by Stiglitz's remarks began with the failure of economic regulation—that is, the regulation of industries to keep them from exercising monopoly power. Mainstream economists used to argue, for example, that railroads were a "natural monopoly," a market failure that had to be corrected by an agency such as the Interstate Commerce Commission. But over the years, especially after the regulatory reach of this agency was extended to trucking, it became apparent that regulation was actually limiting competition. Empirical evidence showed, for example, that freight rates within states lacking regulation were substantially lower than rates between states, where federal regulations governed.

In the face of this evidence, economists began abandoning their market failure arguments and began exploring "government failure." They noticed that regulatory agencies could be "captured" by special interests, so that the agency was no longer pursuing the public inter-

est but, rather, protecting the firms it was supposed to be regulating.

A growing number of economists, led by George Stigler, began to develop theories for why this occurred. Some economists proposed deregulation of railroads and trucks and, subsequently, airlines—that is, leaving the operation of companies to the competitive forces of the marketplace. Deregulation of transportation began in the late 1970s and has dramatically reduced transportation costs and increased transportation services. According to a study by economists Robert Crandall and Jerry Ellig (1997, 2), from 1977 to 1987 trucking prices fell by between 28 percent and 56 percent (in real terms), and airline prices fell by 29 percent from 1977 to 1997. As a result, pressure has mounted to deregulate telecommunications and, more recently, electricity.

Today, environmental economics is evolving in the same direction, toward recognition of problems with government regulation and toward greater respect for the marketplace. Building on the work of Mancur Olson and George Stigler, economists such as Sam Peltzman and Gary Becker have pointed out that not just industries but other small, concentrated interest groups such as environmental activists can control regulatory policies. When this happens, the results are not necessarily in the public interest. A recent textbook by Harvard economist W. Kip Viscusi and others summarize the effects of government environmental regulation: “Expectations were high, and for the most part these expectations regarding potential gains that would be achieved were not fulfilled” (Viscusi, Vernon, and Harrington 1997, 655).

Free-Market Solutions

Free market environmentalists have long been aware of the problems of government decision making (Baden and Stroup 1981). They propose dealing with the potential tragedy of the commons by establishing private property rights. Private ownership makes people accountable. People must bear the costs of actions that de-

crease the value of the resources they use and they can reap the rewards of actions that increase the value of the resources. If they neglect what they have, the property will fall in value. If owners husband what they have, it will grow in value. These facts provide incentives for good stewardship.

Economists are increasingly discovering examples of how the creation of (or recognition of) private or quasi-private property rights can solve environmental problems. For example, in parts of Africa, elephant herds are declining in population, largely because they are commonly owned and their ivory is sought after. Yet in southern Africa, where elephant herds are, in effect, owned by the surrounding villagers, elephant numbers are increasing rather than falling. The now-famous CAMPFIRE program in Zimbabwe provides villagers with meat, hides, and cash from legal elephant hunts. These benefits provide an incentive for the villagers to protect elephants for the future so that they will reap rewards in the future as well as the present. People who previously allowed poaching now take great care of the elephants in their region (Kreuter and Simmons 1995, 160).

To the extent that the elephants are private property—and of course the elephants remain wild, but the villagers have quasi-ownership—the villagers in Zimbabwe bear the costs and benefits of their decisions. If they cooperate with poachers and let the elephants be killed in excessive numbers, they will feel the costs. They will lose the benefits of having elephants in the future. Because they are, in essence, owners of the elephants, they make sure that there will be enough elephants so that there can be legal hunts from which they earn goods and money.

Many other examples of “privatizing,” or partly privatizing, the commons can be found. New York City recently gave day-to-day responsibility for the city’s crown jewel, Central Park, to a private nonprofit group, the Central Park Conservancy. The city found that it could not adequately maintain the quality of this park (actual ownership remains with the city government, however).

This followed by a few years a move by private businesses surrounding Bryant Park in midtown Manhattan to join together to

restore the park. Because Bryant Park was a “commons” with open access, it had attracted drug dealers and drug addicts. Few others ventured near the park, which became seedy and neglected. The businesses formed a district (this district is public, but small and similar to a private organization). They cleaned up the park, hired security guards to patrol it, and began to restore it to a park that thousands enjoy. In both cases, the parks were not literally privately owned, but they were managed with owner-like concern.

A historical example, Ravenna Park in Seattle, illustrates the process in reverse. In the early twentieth century, private owners saved beautiful Douglas fir trees from the loggers’ saw. After the city took over the park, however, the magnificent forest was cut down, and it is now just another city park with playgrounds and tennis courts (Anderson and Leal 1991, 51–52). During the 1970s, it attracted homeless people and criminals (Anderson and Shaw 1985).

Even water is sometimes privately owned, or nearly so. In England, while most water is publicly owned, fishing rights on most rivers and streams (but not in coastal fisheries) are private. This right gives anglers an opportunity to protect streams from pollution. The anglers have an incentive to seek out polluters and sue, if necessary, to protect their valuable fishing assets (Anderson and Leal 1991, 112).

In the western United States, people who divert water for irrigation and other purposes have legal rights to use the diverted water. By trading those rights, they allow water to be used more efficiently, with less need for new dams and irrigation canals (Anderson and Snyder 1997, 13). Furthermore, while government efforts to save declining salmon stocks have been expensive and largely fruitless, a number of people have worked out water trades that save salmon. Along the Columbia River, Zach Willey of the Environmental Defense Fund negotiated a purchase of water from Skyline Farms of Malheur County, Oregon. Skyline has diversion rights to water from the Snake and Malheur Rivers. It gave them up in return for payments from electricity producers. Power companies and the Bonneville Power Authority will hold the water behind dams for release at times when salmon need it (and times

when it can produce valuable electricity).

Orri Vigfússon, an Icelandic businessman who heads the North Atlantic Salmon Fund, has also used the market to save salmon. With donated funds, he bought out commercial fishing rights off the shores of Greenland and the Faroe Islands. Just as farmers receive payments not to irrigate, fishers around the Faroes received \$685,500 per year not to use their nets for commercial salmon fishing. Private rights made these trades possible.

None of this is to say that private ownership is always possible for all commons. Applying private ownership to air basins, for example, is not conceivable today, and thus we rely on government regulation to clean up the air above Los Angeles. Government regulation may be a necessary second-best solution. But even here it is possible to define specific airsheds or basins and manage them in ways that private owners would. For example, an airshed manager could draw revenues from emitters on the basis of the amount of the air basin they used. The manager could search for low-cost opportunities for keeping the air clean and reward those who took advantage of them.

We should not ignore the possibility for evolution to private property rights. When settlers first began managing cattle on the Great Plains in the mid-1800s, establishing property rights to land would have seemed impossible. The spaces were vast, and there were few trees to build fences with. But as the potential value of enclosed land increased, an economic incentive developed that led to a low-cost way of eliminating the tragedy of the commons—barbed wire (Anderson and Hill 1975, 172). Once effective fences could be set up, people's property could be marked and protected. In a parallel way, new technology may make it possible to trace sources of pollution so that the "owners" of that pollution can be identified. If they can be identified, the "owners" can be held accountable for harm they may cause. Chemical tracers introduced into smokestacks have been used on an experimental basis to track pollutants (Anderson and Leal 1991, 166).

The Global Picture

There is now international evidence that the protection of private property rights is closely linked to environmental quality. Seth Norton (1998, 37–54), a professor of economics at Wheaton College, found measures of the extent to which countries have property rights protection and then looked at how this protection correlated with measures of environmental quality.

In nations where property rights are well protected, roughly 93 percent of the population has access to safe drinking water, compared with only about 60 percent of the population in countries with weak property rights. In countries that protect property rights, 93 percent of the population also has access to sewage treatment. But in countries that don't, the figure is only 48 percent. Norton found a similar correlation with life expectancy. He found that life expectancy is seventy years in countries with strong protection of property rights but only fifty years where property rights are only weakly protected.

Even people in poor nations—and the poorest people in those nations—enjoy a higher quality of life if property rights are well protected. Norton correlated the 1997 Human Poverty Index (HPI), issued by the United Nations Human Development Report, with property rights protection. This index measures the well-being of the poorest people in the poorest countries. He found that in countries where property rights are protected, 95 percent of the poor population live to the age of forty, but in countries with weak protection of property rights, only 74 percent (fewer than three-quarters!) of the poor people live that long.

Conclusion

Aided by evidence such as this, free market environmentalism has increasingly become part of the mainstream. Yes, there are still holdouts—economists who minimize the power of private property rights to protect the environment or who still believe that govern-

ment can effectively correct problems in the marketplace. But these dwindle in number with each passing day. Indeed, five of the Nobel Prizes in economics awarded in the 1990s went to economists associated with the University of Chicago, the school of Friedman and other market-oriented scholars such as George Stigler.

Lester Thurow was right when he said in 1980 that environmental goods are an economic good like other consumer goods, but wrong when he said that they must be provided collectively. With property rights in place, markets are capable of supplying these goods just as readily as they do food. More than ever before, mainstream economists recognize this fact.

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