



SERVING
BUDGET CUTS &
ENVIRONMENTAL
QUALITY

By Terry L. Anderson

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As the 2012 presidential campaign heats up, it would be nice to have some real political leadership, especially when it comes to the environment. Fortunately, there is a little-known party—the GREEN Tea Party (GTP)—with the perfect candidate waiting in the wings, or perhaps I should say swamps: “KERMIT FOR PRESIDENT!” Kermit understands, “it’s not easy being green.”

The GTP and Kermit come with an official drink, green tea. Like antioxidants in green tea, the GTP is filled with “anti’s”—anti-deficits, anti-regulations, and anti-bureaucracies, which fight the cancer of an ever-growing government. But the GTP is not anti-everything. It contains “pros” as well—pro-growth, pro-environmental quality, and pro-property rights.

IS THE GTP FOR YOU?

If you are thinking about supporting Kermit, you need to ask yourself an important question: Are you really an environmentalist, or are you just “greener than thou?” Membership in the Green Tea Party requires more than just displaying your green bona fides. It requires proven results and pragmatic environmental policies, not just green rhetoric.

Simply driving hybrids that are a “deeper shade of green,” eating at “green concession stands,” or using green termite killers is not enough. Such acts represent “conspicuous conservation,” as described by two Berkeley economists who compared Toyota Prius owners with Honda Civic hybrid owners. Steven and Alison Sexton found that Prius owners were willing to pay a premium of up to \$7,000 for their car, even though



the Prius and Civic have the same efficiency rating. Why? Toyota explicitly designed the Prius to look different from other cars. This approach provides a “green halo” for drivers. Similarly, people place their recycle bin prominently on the curb where others will see it, and they choose cloth grocery bags displaying environmental slogans showcasing their green credentials.

Conspicuous conservation is not enough to qualify you for membership in the GTP because it does not necessarily help the environment. Choosing recycled paper bags over plastic might mean saving landfill space, but as Daniel Benjamin explains in “Recycling Myths Revisited,” recycled paper often uses more energy and chemicals in the production process. If you are trying to be “greener than thou,” your e-mails might say, “Save a tree. Please don’t print this e-mail.” But as any tree

farmer will tell you, reducing the demand for paper reduces the demand for trees, making it more likely that tree plantations will become subdivisions. That is why environmentalist tree farmer (and keyboardist for the Rolling Stones) Chuck Leavell types, “It’s OK to print this e-mail.”

For the GTP, environmentalism is not a secular religion trying to convert environmental sinners. Nor should it be combined with non-secular religion as it was at a Seattle church with a flashing sign advertising “Earth Day and Good Friday services on April 22.”

The GTP is also not for you if you think government regulation is the answer when green religion does not get you what you want. Kermit was not among the traditional environmentalists who screamed when traditional Tea Party budget cutters took aim at the budget of the Environmental

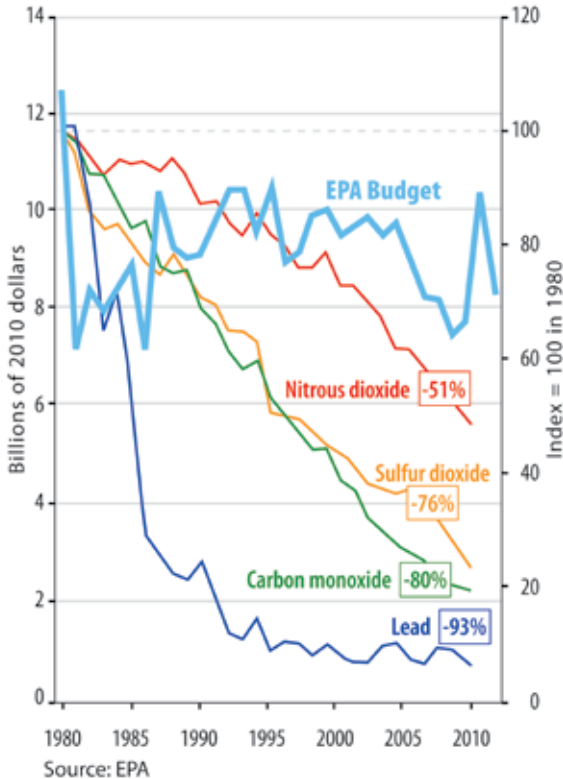
Protection Agency (EPA). After the Obama administration increased the budget of the EPA from \$7.5 billion in 2009 to \$10 billion in 2010, a conservative Congress “slashed” the budget by \$1.6 billion.

The EPA budget cuts were not aimed at cutting expenditures for enforcing clear air and water regulations. Rather they were aimed at eliminating a proposed “Climate Service,” reducing funding for an assistant to the president on energy and climate change, and limiting EPA’s involvement in establishing a carbon cap-and-trade program. Representative Mike Simpson captured the essence of “green tea” budget cuts when he said, “These cuts give us the opportunity to take a close look at how the agency is spending its dramatic increases in funding and look at whether new regulations are effective.”

The Green Tea Party also believes cutting budgets can reduce bureaucracy without reducing environmental quality. Consider Figure 1 on page 10, which shows that since 1980, EPA’s budget (adjusted for inflation) remained relatively flat, but air quality continually improved. Such data suggest that Obama’s budget expansion only increases bureaucracy, not air quality. And the same can be said of water regulations. For example, between 2002 and 2010, federal mandates required New York City to spend \$15 billion on water and waste water projects. In a letter to the *Wall Street Journal*, Caswell Holloway, commissioner of the city’s Department of Environmental Protection, used the EPA’s requirement that NYC spend \$1.6 billion to cover a 90-acre reservoir in Yonkers to illustrate high regulatory costs for which public health benefit is “essentially nil.”

FIGURE 1:

AIR QUALITY AND THE EPA BUDGET SINCE 1980



Finally, do not join the GTP if you are pessimistic about the future of humanity and the environment. Are you worried that we are running out of resources because of human population growth? Do you think that we are running out of oil and that alternative energy will only be developed through government subsidies? Do you think that global warming will have catastrophic consequences to which humans will not be able to adapt?

If you are concerned that humans cannot adapt, Kermit is not your candidate because he is a “rational optimist,” to use the title of Matt Ridley’s best-selling book. Since swinging down from trees, humans have adapted and progressed. Who could have imagined 30 years ago that we would hold on our laps the computing capacity that required a room full of electronics in 1980? Who could have imagined that electronic



communication would replace letters delivered by post or fax? Who today thinks the automobile will be powered by fossil fuels 50 years from now? In short, the incentives of free enterprise will continue to deliver us from Malthusian resource crises as they have for centuries.

TWO GREEN PLANKS

With only two planks, the GTP platform is easy to understand. They are:

1. WEALTHIER IS HEALTHIER

Economic growth and environmental quality were long considered at odds with one another; growth meant environmental destruction. Careful empirical studies of the relationship, however, suggest that economic growth may be a requirement

for environmental improvement. When coupled with overwhelming evidence that economic growth results from secure property rights and a strong rule of law, we have a recipe for improving the environment that requires economic progress be created by human, rather than governmental, ingenuity.

2. INCENTIVES MATTER

In the choice between using the carrot—property rights and markets—or the stick—government regulation—to improve environmental quality, the GTP always starts by searching for positive incentives. One of the GTP’s mottos is borrowed from the great conservationist, Aldo Leopold who said, “Conservation will ultimately boil down to rewarding the private landowner who conserves the public interest.” The GTP believes

that sustainability only comes from profitability and therefore strives to make the environment an asset worth conserving because it makes economic sense to do so. If this can be accomplished, economic prosperity can be linked with environmental quality.

The GTP platform pursues policies that encourage economic growth by strengthening private resource management through secure private property rights and a strong rule of law. The GTP does not believe that more government spending, especially at the national level, is the key to prosperity or to environmental quality. Prosperity results from entrepreneurs pursuing gains from trade in the marketplace, and gains from trade can only be achieved if property rights are secure.

POLICIES FOR BREWING GREEN TEA

Following the first Earth Day in 1970, conservatives and liberals alike jumped on the green bandwagon, which advocates environmental protection through the political process. As a result, Washington is afloat in an environmental alphabet soup: CWA—Clean Water Act; CAA—Clean Air Act; NEPA—National Environmental Policy Act, RCRA—Resource Conservation and Recovery Act; FLPMA—Federal Land Policy and Management Act, and many more.

There is little doubt that these laws have improved environmental quality in some dimensions, but they have done so at a high cost to both the federal budget and the national economy. The EPA budget alone would have been \$10 billion if cuts had not been



made in 2011. And agency budgets are but a small part of the total when one considers compliance costs—the costs the economy endures to comply with the myriad of statutes and mandates. Some estimates put these costs as high as 2 percent of GDP. Though there is debate over how high these costs are and whether they are worth it, there is little debate over whether we could improve environmental quality for less money.

Not only does regulation increase the cost of achieving environmental quality, it hamstring agencies trying to do their job. Jack Ward Thomas, former chief of the U.S. Forest Service, succinctly describes the result in *PERC Reports*: “From economic and social standpoints, national forests have changed from an economic asset to an increasing liability.” Why? In Thomas’ words it is because of “a vicious cycle of increasing costs, time

delays, and inability to carry out management actions.” At every turn, agencies are confronted with costly lawsuits challenging their decisions. Between 2003 and 2007, for example, environmental groups filed more than 1,500 lawsuits forcing agencies to pay out more than \$4.7 billion for settlements and legal fees.

To help extract the economy and the environment from this regulatory morass, the GTP will pursue policies grounded in free market environmentalism, an approach to the environment that harnesses property rights and markets to improve environmental quality. Here is a sampling of policies that Kermit favors for energy, land, water, ocean fisheries, and air.

ENERGY

The demand for energy is currently met using mainly fossil fuels, nuclear, and hydroelectric sources. Green energy, such as wind and solar, make a trivial contribution to both U.S. and world electricity generation, both because they cost too much and are available only intermittently. There are currently several top-down programs offered by green energy advocates touted because they provide “green jobs,” but green energy policies are unlikely to ever meet energy demands, significantly reduce carbon emissions, or stimulate the economy.

PROBLEM—The United States is spending billions of dollars on alternative energy. With visions of coal-fired power plants belching carbon into the atmosphere and automobiles



creating clouds of smog, U.S. energy policy has focused on green alternatives such as ethanol, wind power, and solar power. The goal is to slow global warming, create new jobs, and wean ourselves from foreign oil—especially from the Middle East. These policies have failed to produce significant amounts of energy to replace fossil fuels. Alternative energy sources provide only 5.7 percent of U.S. energy according to the U.S. Energy Information Administration and have cost taxpayers billions because they are not profitable and therefore not sustainable. Moreover, they have had their own environmental costs. Ethanol subsidies encourage the cultivation of wetlands and increase the use of pesticides and herbicides, wind turbines disrupt bird flight paths, and solar farms are unsightly and falsely claim to stimulate the economy by adding green jobs. As my colleagues Roger Mein-

ers and Andrew Morriss point out, one should consider what the nation gives up to fund green employment. A report from the Center for American Progress, for example, asserts that if \$100 billion is spent on green activities, then 935,200 jobs would be directly created, implying a cost of \$107,000 per job—the cost of four years tuition at the average college.

GTP SOLUTION—Let the market dictate energy sources. A replacement for fossil fuels will only be found if entrepreneurs can come up with something that is cheaper, cleaner, and more convenient. The GTP is all for renewables and alternatives if it makes economic sense, which means no subsidies. And the same holds true for current sources; all energy subsidies, whether they are for fossil fuels, nuclear power, or hydroelectric power, should be eliminated.

LAND MANAGEMENT

Land management is an area where markets can work well to produce environmental amenities—often called ecosystem services. Land trusts, for example, are cooperating with landowners to obtain conservation easements for producing everything from open space to endangered species habitat to agricultural communities. Despite such success, there are plenty of hurdles to overcome.

PROBLEM—Federal farm policy encourages environmental degradation. One of the biggest hurdles to rewarding private landowners for conserving the environment is a federal farm policy that distorts incentives. As previously discussed, ethanol subsidies have induced corn farmers to cultivate wetlands, cut trees to open more fields, and use more



water and fertilizer. The result is less wildlife habitat, in particular, and fewer ecosystem services, in general.

GTP SOLUTION—Eliminate farm subsidies. These subsidies encourage overproduction of agricultural commodities and tie land conservation payments to the production of ecosystem services. Farmers could bid to produce endangered species habitat and would be paid based on the actual increase in the number of species on their land.

PROBLEM—Federal land management loses money and does not improve forest health. A huge impediment to land stewardship is federal land management that is both fiscally and environmentally imprudent. Federal agencies such as the Forest Service, Park Service, and Bureau of Land Manage-

ment continually contribute to the deficit while controlling more than one-third of the nation's land—worth billions, if not trillions, of dollars. Between 2006 and 2008, for example, the Forest Service lost, on average, \$3.58 billion each year. Federal land agencies also have an abysmal record of stewardship. Public land policy analyst, Holly Fretwell, concludes in her book *Who is Minding the Federal Estate* that “our national forests are in appallingly poor health. An estimated 39 million acres are at risk to catastrophic wildfire and another six million are dead and dying from insect infestation.” As Kermit's trusted advisor, former Secretary of State Condoleezza Rice said, “Even endangered species don't like living in public housing.” We should expect a positive fiscal and environmental return on our valuable land assets.

GTP SOLUTION—Require land management agencies to turn a profit on their assets, and if they do not, turn the resources over to states, Indian tribes, or private entities including environmental groups. To illustrate how this could help, in *Two Forests under the Big Sky*, Alison Berry compared federal management of the Lolo National Forest in Montana with adjacent tribal management of the Flathead Indian Reservation. Between 1998 and 2005, the Salish-Kootenai Confederate Tribes earned net revenue of \$125 per thousand board feet of timber harvested, while the Lolo National Forest earned \$13 per thousand board feet. The tribal government earned \$2.04 for every dollar it spent versus the Forest Service’s \$1.11 per dollar spent. State land managers also do better, earning \$5.62 for every dollar they spend compared to an average of \$0.76 for every dollar spent on national forests.

WATER

Since beginning in the early 1900s, the federal government has been subsidizing and delivering water—especially through the Bureau of Reclamation and the Corps of Engineers. Whether it was building levees or dams, taxpayers have paid trillions of dollars to provide landowners protection from flooding, farmers cheap water for irrigation, and consumers electricity from low-cost hydro-power. Not only do these projects epitomize fiscal irresponsibility, they are costly to the environment. The GTP believes that water markets can reduce the fiscal drain on the treasury and improve water-use efficiency and quality.

PROBLEM—Water is cheaper than dirt. Conflicts over water use in California epitomize



mize water use inefficiency. Especially in the Central Valley, where a little fish called the delta smelt is raising havoc. Environmentalists claim that agricultural water diversions are the cause of a precipitous decline in San Francisco Bay smelt populations and that this is a harbinger of what will happen to other fish populations if agricultural water use is not curtailed. Using the Endangered Species Act as a club, the delta smelt has become a powerful player in California because it was able to turn off the federal valves that delivered millions of gallons of water to farmers—causing agricultural losses estimated to be between \$1.2 and \$1.6 billion annually.

GTP SOLUTION—Tap water markets. Water markets have a tremendous potential to improve water use efficiency and environmental quality. Even the Commissioner of

the Bureau of Reclamation, Michael Conner, recognizes that “water transfers move water from willing sellers to willing buyers in transactions that can improve economic well-being, increase efficiency in water use, and protect against negative externalities.”

PROBLEM—Regulations have done little to curb non-point sources of water pollution. The Clean Water Act called for the total elimination of pollution discharge into the nation’s streams and lakes by 1985. Though it failed to meet this unrealistic goal, regulators were able to identify point-sources—especially industry and municipalities—and to force emission reductions. Having picked the low-hanging fruit, regulators are trying to reduce non-point sources such as agricultural pesticides. Because such sources are difficult to identify and monitor, however,

the costs of further improvements to water quality rise exponentially.

GTP SOLUTION—Increase the use of cap-and-trade to improve water quality. The EPA established total maximum daily loads (TMDLs) for streams and water basins. With this cap in place, the EPA should allocate shares of the TMDL to water users and require anyone who wants to emit effluent into the system to purchase shares of the cap. This approach, which depends on decentralization, has been used successfully in the Tar-Pamlico Sound of North Carolina to bring water quality into compliance with regulatory standards at much lower costs. As Professor Bruce Yandle points out, the Tar-Pamlico is unique because of an association that gathers revenues and then contracts with farmers to reduce nutrient discharge.

OCEAN FISHERIES

Around the world, fisheries are collapsing due mainly to overfishing. In the late 1970s, coastal nations began extending claims over many of the world's marine fisheries in an attempt to combat the collapse of fish stocks. The primary management approach, which prevails today, is for governments to rely on regulations restricting vessels, gear, seasons, and catch characteristics such as size. Little attention is paid to economic incentives. Unfortunately, such an approach fails to instill in each fisher a regard for the future value of the resource. Moreover, a regulated commons still allows shares of the catch to be left up for grabs, leading to a destructive "race for fish."

PROBLEM—Regulations to control overfishing have been ineffective. When confronted



with overfishing, regulatory agencies have tried to limit the catch. If there are profits to be had from the sea, anglers find ways around the regulations. With entry limits, anglers fish more days; with season limits they fish longer days; with vessel limits, bigger boats are used; and with boat size limits, fishers add more sophisticated gear. As a result, fish stocks continue to decline as the costs of catching fish rise.

GTP SOLUTION—Establish tradable catch shares. Fish stocks can be increased and efficiency improved by establishing ownership. This is accomplished by limiting the total allowable catch, assigning shares of that total catch to individual fishers, and allowing them to trade their shares. Where catch shares have been implemented, season lengths have increased, the number of boats

in the fishery has declined, the quality of fish has increased, and the profits to owners have gone up. As recently reported in the *Journal of Sustainable Development*, “the federal deficit could be decreased by an estimated \$890 million to \$1.24 billion in net present value if 36 of the 44 federal U.S. fisheries adopted catch shares.” As with any property right, catch shares give fishers an incentive to invest in the resource and generate more wealth for society.

AIR QUALITY

As indicated in Figure 1 on page 10, air quality in the United States has been steadily improving, but what is not shown is that the improvement started before the Clean Air Act and the EPA were even a glint in the eye of congressmen and women. In *Clear the Air*:

The Real Story of the War on Air Pollution, economist Indur Goklany documents the improvements that “had begun no later than the 1920s for SO₂, the ’30s for VOC [volatile organic compounds] and NO_x, and the ’40s for PM [particulate matter] and CO₂.” The driving force has been, and always will be, prosperity and technology rather than regulation.



PROBLEM—The United States has made progress on air quality in spite of federal regulations, but the improvements have come at a higher cost than necessary. This is because they too often focus on technology rather than emissions. For example, EPA’s New Source Review program “grandfathers” existing coal-fired generating plants and oil refineries and makes it very costly to build new ones with technologies that would generate fewer emissions at lower costs. When it does focus on

ratcheting down emissions, EPA justifies the costs on the grounds that cleaner air results in the “avoidance of premature deaths.” Although Kermit believes in protecting humans from wrongful harms by others, he believes that markets can do so more cost effectively.

GTP SOLUTION—Rely on cap-and-trade and devolve authority to state and local governments. In *Clearing the Air*, Goklany summarizes the GTP solution, “emissions trading should be expanded to allow trades between old and new sources, and the pollutant-by-pollutant approach should be replaced by one that focuses on reducing overall risks to public health Control of interstate pollution should be negotiated between affected states.” The potential for emissions trading to reduce emissions at a much lower cost was demonstrated in the CAA amendments of

1990. As an EPA official concluded regarding these amendments, “Not only are emissions reductions greater than expected, but compliance costs are now expected to be half that originally expected.”

PROBLEM—Humans may be causing global warming. The GTP does not take a stand on how much global temperatures are increasing or on whether increases are from anthropogenic causes. Given that even the Intergovernmental Panel on Climate Change admits that dramatic action to reduce human carbon emissions will have trivial effects on global temperatures, the GTP is unwilling to spend trillions of dollars on trying to mitigate warming by reducing carbon emissions. Moreover, though the GTP is sanguine about the ability of cap-and-trade to work for water quality, fisheries, and other air emissions, it has no

confidence that it can work for carbon. The conditions that make this approach work in other cases (e.g. science-based levels for the cap, rational methods for allocation of the cap, and effective mechanisms for enforcing the cap) do not exist for carbon.

GTP SOLUTION—With no evidence that global warming will have sudden catastrophic impacts, adaptation is the appropriate response to climate change. The best policy for dealing with the consequences of global warming, should they occur, is to ensure that market signals—prices—accurately reflect the effects of global warming. The federal government, for example, should not subsidize insurance for land and buildings in low-lying areas susceptible to changes in sea level, subsidize crop insurance, or redirect capital investment by trying to anticipate the effects of warming on asset

prices. In the course of human history, when climate has changed dramatically people have moved away from less hospitable places to more hospitable areas. Already, there are indications that cropping patterns are adjusting to changing climate such as a northeasterly migration of wine production from France to Germany. The GTP believes that human perception and ingenuity will respond to market signals to mitigate potential adverse effects of global warming. If it is clear that carbon emissions from large and rapidly growing economies are imposing costs on poor countries, especially island nations where higher sea levels could inundate their land, there is an obligation to provide assistance for the adversely effected people. Rather than spending trillions of dollars trying to reduce carbon emissions, however, it makes far more sense to open borders to migration by those adversely effected.

VOTE GREEN TEA PARTY

Kermit and the GTP are environmentalists who care about results not just rhetoric. It is not enough to strut your stuff in clothing made from recycled materials while driving your hybrid to an environmental protest. Kermit and the GTP know that environmental quality cannot be bought by simply throwing more taxpayer dollars and more regulations at environmental problems. That is why the GTP can promise to deliver budget cuts and environmental quality.

Vaclav Klaus, president of the Czech Republic, offers what might be thought of as the GTP manifesto:

As someone who lived under communism for most of my life, I feel obliged to say that I see the biggest threat to freedom,



democracy, the market economy and prosperity now in ambitious environmentalism, not in communism. This ideology wants to replace the free and spontaneous evolution of mankind by a sort of central (now global) planning.... They are Malthusian pessimists.... The environmentalists ask for immediate political action because they do not believe in the long-term positive impact of economic growth and ignore both the technological progress that future generations will undoubtedly enjoy, and the proven fact that the higher the wealth of society, the higher is the quality of the environment.

Kermit and the GTP have confidence in a growing number of environmental entrepreneurs who are working to do good for the environment and to do well for themselves.

Such enviropreneurs™, as PERC calls them, do not need more regulations and bigger government deficits; they need secure property rights to create environmental assets. Property rights lead to entrepreneurship, entrepreneurship leads to prosperity, and prosperity leads to environmental quality. The Green Tea Party offers policies that encourage this progression, stimulating both economic prosperity and environmental protection. **GO GREEN!**

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PERC, the Property and Environment Research Center, is a nonprofit institute dedicated to improving environmental quality through property rights and markets.

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