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To Drill or Not to Drill

Let the Environmentalists Decide

◆

DWIGHT R. LEE

High prices of gasoline and heating oil have made drilling for oil in Alaska's Arctic National Wildlife Refuge (ANWR) an important issue. ANWR is the largest of Alaska's sixteen national wildlife refuges, containing 19.6 million acres. It also contains significant deposits of petroleum. The question is, Should oil companies be allowed to drill for that petroleum?

The case for drilling is straightforward. Alaskan oil would help to reduce U.S. dependence on foreign sources subject to disruptions caused by the volatile politics of the Middle East. Also, most of the infrastructure necessary for transporting the oil from nearby Prudhoe Bay to major U.S. markets is already in place. Furthermore, because of the experience gained at Prudhoe Bay, much has already been learned about how to mitigate the risks of recovering oil in the Arctic environment.

No one denies the environmental risks of drilling for oil in ANWR. No matter how careful the oil companies are, accidents that damage the environment at least temporarily might happen. Environmental groups consider such risks unacceptable; they argue that the value of the wilderness and natural beauty that would be spoiled by drilling in ANWR far exceeds the value of the oil that would be recovered. For example, the National Audubon Society characterizes opening ANWR to oil drilling as a threat "that will destroy the integrity" of the refuge (see statement at www.audubon.org/campaign/refuge).

So, which is more valuable, drilling for oil in ANWR or protecting it as an untouched wilderness and wildlife refuge? Are the benefits of the additional oil really less than the costs of bearing the environmental risks of recovering that oil? Obviously,

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answering this question with great confidence is difficult because the answer depends on subjective values. Just how do we compare the convenience value of using more petroleum with the almost spiritual value of maintaining the “integrity” of a remote and pristine wilderness area? Although such comparisons are difficult, we should recognize that they can be made. Indeed, we make them all the time.

We constantly make decisions that sacrifice environmental values for what many consider more mundane values, such as comfort, convenience, and material well-being. There is nothing wrong with making such sacrifices because up to some point the additional benefits we realize from sacrificing a little more environmental “integrity” are worth more than the necessary sacrifice. Ideally, we would somehow acquire the information necessary to determine where that point is and then motivate people with different perspectives and preferences to respond appropriately to that information.

Achieving this ideal is not as utopian as it might seem; in fact, such an achievement has been reached in situations very similar to the one at issue in ANWR. In this article, I discuss cases in which the appropriate sacrifice of wilderness protection for petroleum production has been responsibly determined and harmoniously implemented. Based on this discussion, I conclude that we should let the Audubon Society decide whether to allow drilling in ANWR. That conclusion may seem to recommend a foregone decision on the issue because the society has already said that drilling for oil in ANWR is unacceptable. But actions speak louder than words, and under certain conditions I am willing to accept the actions of environmental groups such as the Audubon Society as the best evidence of how they truly prefer to answer the question, To drill or not to drill in ANWR?

Private Property Changes One’s Perspective

What a difference private property makes when it comes to managing multiuse resources. When people make decisions about the use of property they own, they take into account many more alternatives than they do when advocating decisions about the use of property owned by others. This straightforward principle explains why environmental groups’ *statements* about oil drilling in ANWR (and in other publicly owned areas) and their *actions* in wildlife areas they own are two very different things.

For example, the Audubon Society owns the Rainey Wildlife Sanctuary, a 26,000-acre preserve in Louisiana that provides a home for fish, shrimp, crab, deer, ducks, and wading birds, and is a resting and feeding stopover for more than 100,000 migrating snow geese each year. By all accounts, it is a beautiful wilderness area and provides exactly the type of wildlife habitat that the Audubon Society seeks to preserve. But, as elsewhere in our world of scarcity, the use of the Rainey Sanctuary as a wildlife preserve competes with other valuable uses.

Besides being ideally suited for wildlife, the sanctuary contains commercially valuable reserves of natural gas and oil, which attracted the attention of energy companies when they were discovered in the 1940s. Clearly, the interests served by fossil

fuels do not have high priority for the Audubon Society. No doubt, the society regards additional petroleum use as a social problem rather than a social benefit. Of course, most people have different priorities: they place a much higher value on keeping down the cost of energy than they do on bird-watching and on protecting what many regard as little more than mosquito-breeding swamps. One might suppose that members of the Audubon Society have no reason to consider such “anti-environmental” values when deciding how to use their own land. Because the society owns the Rainey Sanctuary, it can ignore interests antithetical to its own and refuse to allow drilling. Yet, precisely because the society owns the land, it has been willing to accommodate the interests of those whose priorities are different and has allowed thirty-seven wells to pump gas and oil from the Rainey Sanctuary. In return, it has received royalties of more than \$25 million (Baden and Stroup 1981; Snyder and Shaw 1995).

One should not conclude that the Audubon Society has acted hypocritically by putting crass monetary considerations above its stated concerns for protecting wilderness and wildlife. In a wider context, one sees that because of its ownership of the Rainey Sanctuary, the Audubon Society is part of an extensive network of market communication and cooperation that allows it to do a better job of promoting its objectives by helping others promote theirs. Consumers communicate the value they receive from additional gas and oil to petroleum companies through the prices they willingly pay for those products, and this communication is transmitted to owners of oil-producing land through the prices the companies are willing to pay to drill on that land. Money really does “talk” when it takes the form of market prices. The money offered for drilling rights in the Rainey Sanctuary can be viewed as the most effective way for millions of people to tell the Audubon Society how much they value the gas and oil its property can provide.

By responding to the price communication from consumers and by allowing the drilling, the Audubon Society has not sacrificed its environmental values in some debased lust for lucre. Instead, allowing the drilling has served to reaffirm and promote those values in a way that helps others, many of whom have different values, achieve their own purposes. Because of private ownership, the valuations of others for the oil and gas in the Rainey Sanctuary create an opportunity for the Audubon Society to purchase additional sanctuaries to be preserved as habitats for the wildlife it values. So the society has a strong incentive to consider the benefits as well as the costs of drilling on its property. Certainly, environmental risks exist, and the society considers them, but it also responsibly weighs the costs of those risks against the benefits as measured by the income derived from drilling. Obviously, the Audubon Society appraises the benefits from drilling as greater than the costs, and it acts in accordance with that appraisal.

Cooperation between Bird-Watchers and Hot-Rodders

The advantage of private ownership is not just that it allows people with different interests to interact in mutually beneficial ways. It also creates harmony between those whose interests would otherwise be antagonistic. For example, most members of the

Audubon Society surely see the large sport utility vehicles and high-powered cars encouraged by abundant petroleum supplies as environmentally harmful. That perception, along with the environmental risks associated with oil recovery, helps explain why the Audubon Society vehemently opposes drilling for oil in the ANWR as well as in the continental shelves in the Atlantic, the Pacific, and the Gulf of Mexico. Although oil companies promise to take extraordinary precautions to prevent oil spills when drilling in these areas, the Audubon Society's position is *no* off-shore drilling, *none*. One might expect to find Audubon Society members completely unsympathetic with hot-rodding enthusiasts, NASCAR racing fans, and drivers of Chevy Suburbans. Yet, as we have seen, by allowing drilling for gas and oil in the Rainey Sanctuary, the society is accommodating the interests of those with gas-guzzling lifestyles, risking the "integrity" of its prized wildlife sanctuary to make more gasoline available to those whose energy consumption it verbally condemns as excessive.

The incentives provided by private property and market prices not only motivate the Audubon Society to cooperate with NASCAR racing fans, but also motivate those racing enthusiasts to cooperate with the Audubon Society. Imagine the reaction you would get if you went to a stock-car race and tried to convince the spectators to skip the race and go bird-watching instead. Be prepared for some beer bottles tossed your way. Yet by purchasing tickets to their favorite sport, racing fans contribute to the purchase of gasoline that allows the Audubon Society to obtain additional wildlife habitat and to promote bird-watching. Many members of the Audubon Society may feel contempt for racing fans, and most racing fans may laugh at bird-watchers, but because of private property and market prices, they nevertheless act to promote one another's interests.

The Audubon Society is not the only environmental group that, because of the incentives of private ownership, promotes its environmental objectives by serving the interests of those with different objectives. The Nature Conservancy accepts land and monetary contributions for the purpose of maintaining natural areas for wildlife habitat and ecological preservation. It currently owns thousands of acres and has a well-deserved reputation for preventing development in environmentally sensitive areas. Because it owns the land, it has also a strong incentive to use that land wisely to achieve its objectives, which sometimes means recognizing the value of developing the land.

For example, soon after the Wisconsin chapter received title to 40 acres of beach-front land on St. Croix in the Virgin Islands, it was offered a much larger parcel of land in northern Wisconsin in exchange for its beach land. The Wisconsin chapter made this trade (with some covenants on development of the beach land) because owning the Wisconsin land allowed it to protect an entire watershed containing endangered plants that it considered of greater environmental value than what was sacrificed by allowing the beach to be developed (Anderson and Leal 1991, chap. 1).

Thanks to a gift from the Mobil Oil Company, the Nature Conservancy of Texas owns the Galveston Bay Prairie Preserve in Texas City, a 2,263-acre refuge that is home to the Attwater's prairie chicken, a highly endangered species (once numbering almost a million, its population had fallen to fewer than ten by the early 1990s). The

conservancy has entered into an agreement with Galveston Bay Resources of Houston and Aspects Resources, LLC, of Denver to drill for oil and natural gas in the preserve. Clearly some risks attend oil drilling in the habitat of a fragile endangered species, and the conservancy has considered them, but it considers the gains sufficient to justify bearing the risks. According to Ray Johnson, East County program manager for the Nature Conservancy of Texas, “We believe this could provide a tremendous opportunity to raise funds to acquire additional habitat for the Attwater’s prairie chicken, one of the most threatened birds in North America.” Obviously the primary concern is to protect the endangered species, but the demand for gas and oil is helping achieve that objective. Johnson is quick to point out, “We have taken every precaution to minimize the impact of the drilling on the prairie chickens and to ensure their continued health and safety” (see statement at <http://texasnature.org/news/pressr10.htm>).

Back to ANWR

Without private ownership, the incentive to take a balanced and accommodating view toward competing land-use values disappears. So, it is hardly surprising that the Audubon Society and other major environmental groups categorically oppose drilling in ANWR. Because ANWR is publicly owned, the environmental groups have no incentive to take into account the benefits of drilling. The Audubon Society does not capture any of the benefits if drilling is allowed, as it does at the Rainey Sanctuary; in ANWR, it sacrifices nothing if drilling is prevented. In opposing drilling in ANWR, despite the fact that the precautions to be taken there would be greater than those required of companies operating in the Rainey Sanctuary, the Audubon Society is completely unaccountable for the sacrificed value of the recoverable petroleum.

Obviously, my recommendation to “let the environmentalists decide” whether to allow oil to be recovered from ANWR makes no sense if they are not accountable for any of the costs (sacrificed benefits) of preventing drilling. I am confident, however, that environmentalists would immediately see the advantages of drilling in ANWR if they were responsible for both the costs and the benefits of that drilling. As a thought experiment about how incentives work, imagine that a consortium of environmental organizations is given veto power over drilling, but is also given a portion (say, 10 percent) of what energy companies are willing to pay for the right to recover oil in ANWR. These organizations could capture tens of millions of dollars by giving their permission to drill. Suddenly the opportunity to realize important environmental objectives by favorably considering the benefits others gain from more energy consumption would come into sharp focus. The environmentalists might easily conclude that although ANWR is an “environmental treasure,” other environmental treasures in other parts of the country (or the world) are even more valuable; moreover, with just a portion of the petroleum value of the ANWR, efforts might be made to reduce the risks to other natural habitats, more than compensating for the risks to the Arctic wilderness associated with recovering that value.

Some people who are deeply concerned with protecting the environment see the concentration on “saving” ANWR from any development as misguided even without a vested claim on the oil wealth it contains. For example, according to Craig Medred, the outdoor writer for the *Anchorage Daily News* and a self-described “development-phobic wilderness lover,”

That people would fight to keep the scar of clearcut logging from the spectacular and productive rain-forests of Southeast Alaska is easily understandable to a shopper in Seattle or a farmer in Nebraska. That people would argue against sinking a few holes through the surface of a frozen wasteland, however, can prove more than a little baffling even to development-phobic, wilderness lovers like me. Truth be known, I’d trade the preservation rights to any 100 acres on the [ANWR] slope for similar rights to any acre of central California wetlands. . . . It would seem of far more environmental concern that Alaska’s ducks and geese have a place to winter in overcrowded, overdeveloped California than that California’s ducks and geese have a place to breed each summer in uncrowded and undeveloped Alaska. (1996, C1)

Even a small share of the petroleum wealth in ANWR would dramatically reverse the trade-off Medred is willing to make because it would allow environmental groups to afford easily a hundred acres of central California wetlands in exchange for what they would receive for each acre of ANWR released to drilling.

We need not agree with Medred’s characterization of the ANWR as “a frozen wasteland” to suspect that environmentalists are overstating the environmental amenities that drilling would put at risk. With the incentives provided by private property, environmental groups would quickly reevaluate the costs of drilling in wilderness refuges and soften their rhetoric about how drilling would “destroy the integrity” of these places. Such hyperbolic rhetoric is to be expected when drilling is being considered on public land because environmentalists can go to the bank with it. It is easier to get contributions by depicting decisions about oil drilling on public land as righteous crusades against evil corporations out to destroy our priceless environment for short-run profit than it is to work toward minimizing drilling costs to accommodate better the interests of others. Environmentalists are concerned about protecting wildlife and wilderness areas in which they have ownership interest, but the debate over any threat from drilling and development in those areas is far more productive and less acrimonious than in the case of ANWR and other publicly owned wilderness areas.

The evidence is overwhelming that the risks of oil drilling to the arctic environment are far less than commonly claimed. The experience gained in Prudhoe Bay has both demonstrated and increased the oil companies’ ability to recover oil while leaving a “light footprint” on arctic tundra and wildlife. Oil-recovery operations are now sited on gravel pads providing foundations that protect the underlying permafrost.

Instead of using pits to contain the residual mud and other waste from drilling, techniques are now available for pumping the waste back into the well in ways that help maintain well pressure and reduce the risks of spills on the tundra. Improvements in arctic road construction have eliminated the need for the gravel access roads used in the development of the Prudhoe Bay oil fields. Roads are now made from ocean water pumped onto the tundra, where it freezes to form a road surface. Such roads melt without a trace during the short summers. The oversize rubber tires used on the roads further minimize any impact on the land.

Improvements in technology now permit horizontal drilling to recover oil that is far from directly below the wellhead. This technique reduces further the already small amount of land directly affected by drilling operations. Of the more than 19 million acres contained in ANWR, almost 18 million acres have been set aside by Congress—somewhat more than 8 million as wilderness and 9.5 million as wildlife refuge. Oil companies estimate that only 2,000 acres would be needed to develop the coastal plain (Murkowski 2000).

This carefully conducted and closely confined activity hardly sounds like a sufficient threat to justify the rhetoric of a righteous crusade to prevent the destruction of ANWR, so the environmentalists warn of a detrimental effect on arctic wildlife that cannot be gauged by the limited acreage directly affected. Given the experience at Prudhoe Bay, however, such warnings are difficult to take seriously. The oil companies have gone to great lengths and spent tens of millions of dollars to reduce any harm to the fish, fowl, and mammals that live and breed on Alaska's North Slope. The protections they have provided for wildlife at Prudhoe Bay have been every bit as serious and effective as those the Audubon Society and the Nature Conservancy find acceptable in the Rainey Sanctuary and the Galveston Bay Prairie Preserve. As the numbers of various wildlife species show, many have thrived better since the drilling than they did before.

Before drilling began at Prudhoe Bay, a good deal of concern was expressed about its effect on caribou herds. As with many wildlife species, the population of the caribou on Alaska's North Slope fluctuates (often substantially) from year to year for completely natural reasons, so it is difficult to determine with confidence the effect of development on the caribou population. It is noteworthy, however, that the caribou population in the area around Prudhoe Bay has increased greatly since that oil field was developed, from approximately 3,000 to a high of some 23,400 (see "Oil Development on the Coastal Plain of AWRW" at <http://www.anwr.org.case.htm>). Some argue that the increase has occurred because the caribou's natural predators have avoided the area—some of these predators are shot, whereas the caribou are not. But even if this argument explains some or even all of the increase in the population, the increase still casts doubt on claims that the drilling threatens the caribou. Nor has it been shown that the viability of any other species has been genuinely threatened by oil drilling at Prudhoe Bay.

Caribou versus Humans

Although consistency in government policy may be too much to hope for, it is interesting to contrast the federal government's refusal to open ANWR with some of its other oil-related policies. While opposing drilling in ANWR, ostensibly because we should not put caribou and other Alaskan wildlife at risk for the sake of getting more petroleum, we are exposing humans to far greater risks because of federal policies motivated by concern over petroleum supplies.

For example, the United States maintains a military presence in the Middle East in large part because of the petroleum reserves there. It is doubtful that the U.S. government would have mounted a large military action and sacrificed American lives to prevent Iraq from taking over the tiny sheikdom of Kuwait except to allay the threat to a major oil supplier. Nor would the United States have lost the nineteen military personnel in the barracks blown up in Saudi Arabia in 1996 or the seventeen killed onboard the *USS Cole* in a Yemeni harbor in 2000. I am not arguing against maintaining a military presence in the Middle East, but if it is worthwhile to sacrifice Americans' lives to protect oil supplies in the Middle East, is it not worthwhile to take a small (perhaps nonexistent) risk of sacrificing the lives of a few caribou to recover oil in Alaska?

Domestic energy policy also entails the sacrifice of human lives for oil. To save gasoline, the federal government imposes Corporate Average Fuel Economy (CAFE) standards on automobile producers. These standards now require all new cars to average 27.5 miles per gallon and new light trucks to average 20.5 miles per gallon. The one thing that is not controversial about the CAFE standards is that they cost lives by inducing manufacturers to reduce the weight of vehicles. Even Ralph Nader has acknowledged that "larger cars are safer—there is more bulk to protect the occupant" (qtd. in Peters and Burnet 1997). An interesting question is, How many lives might be saved by using more (ANWR) oil and driving heavier cars rather than using less oil and driving lighter, more dangerous cars?

It has been estimated that increasing the average weight of passenger cars by 100 pounds would reduce U.S. highway fatalities by 200 a year (Klein, Hertz, and Borener 1991). By determining how much additional gas would be consumed each year if all passenger cars were 100 pounds heavier, and then estimating how much gas might be recovered from ANWR oil, we can arrive at a rough estimate of how many human lives potentially might be saved by that oil. To make this estimate, I first used data for the technical specifications of fifty-four randomly selected 2001 model passenger cars to obtain a simple regression of car weight on miles per gallon. This regression equation indicates that every additional 100 pounds decreases mileage by 0.85 miles per gallon. So 200 lives a year could be saved by relaxing the CAFE standards to allow a 0.85 miles per gallon reduction in the average mileage of passenger cars. How much gasoline would be required to compensate for this decrease of average mileage? Some 135 million passenger cars are currently in use, being driven

roughly 10,000 miles per year on average (1994–95 data from U.S. Bureau of the Census 1997, 843).¹ Assuming these vehicles travel 24 miles per gallon on average, the annual consumption of gasoline by passenger cars is 56.25 billion gallons (= 135 million \times 10,000/24). If instead of an average of 24 miles per gallon the average were reduced to 23.15 miles per gallon, the annual consumption of gasoline by passenger cars would be 58.32 billion gallons (= 135 million \times 10,000/23.15). So, 200 lives could be saved annually by an extra 2.07 billion gallons of gas. It is estimated that ANWR contains from 3 to 16 billion barrels of recoverable petroleum. Let us take the midpoint in this estimated range, or 9.5 billion barrels. Given that on average each barrel of petroleum is refined into 19.5 gallons of gasoline, the ANWR oil could be turned into 185.25 billion additional gallons of gas, or enough to save 200 lives a year for almost ninety years ($185.25/2.07 = 89.5$). Hence, in total almost 18,000 lives could be saved by opening up ANWR to drilling and using the fuel made available to compensate for increasing the weight of passenger cars.

I claim no great precision for this estimate. There may be less petroleum in ANWR than the midpoint estimate indicates, and the study I have relied on may have overestimated the number of lives saved by heavier passenger cars. Still, any reasonable estimate will lead to the conclusion that preventing the recovery of ANWR oil and its use in heavier passenger cars entails the loss of thousands of lives on the highways. Are we willing to bear such a cost in order to avoid the risks, if any, to ANWR and its caribou?

Conclusion

I am not recommending that ANWR actually be given to some consortium of environmental groups. In thinking about whether to drill for oil in ANWR, however, it is instructive to consider seriously what such a group would do *if* it owned ANWR and therefore bore the costs as well as enjoyed the benefits of preventing drilling. Those costs are measured by what people are willing to pay for the additional comfort, convenience, and safety that could be derived from the use of ANWR oil. Unfortunately, without the price communication that is possible only by means of private property and voluntary exchange, we cannot be sure what those costs are or how private owners would evaluate either the costs or the benefits of preventing drilling in ANWR. However, the willingness of environmental groups such as the Audubon Society and the Nature Conservancy to allow drilling for oil on environmentally sensitive land they own suggests strongly that their adamant verbal opposition to drilling in ANWR is a poor reflection of what they would do if they owned even a small fraction of the ANWR territory containing oil.

1. According to data from the Federal Highway Administration, as shown in the *Statistical Abstract* for 1997, average annual vehicle miles was 11,372 for passenger cars and for other two-axle, four-tire vehicles; presumably, the “other” category includes many commercial vehicles that raise the average substantially, making 10,000 a reasonable figure for passenger cars alone.

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