

Free-Market Environmentalism

by Richard Stroup

Free-market environmentalism emphasizes markets as a solution to environmental problems. Proponents argue that free markets can be more successful than government—and have been more successful historically—in solving many environmental problems.

This new interest in free-market environmentalism is somewhat ironic because environmental problems have often been seen as a form of market failure (see Public Goods and Externalities). In the traditional view many environmental problems are caused by decision makers who reduce their costs by polluting those who are downwind or downstream; other environmental problems are caused by private decision makers' inability to produce "public goods" (such as preservation of wild species) since no one has to pay to get the benefits of this preservation. While these problems can be quite real, growing evidence indicates that governments often fail to control pollution or to provide public goods at reasonable cost. Furthermore, the private sector is often more responsive than government to environmental needs. This evidence, which is supported by much economic theory, has led to a reconsideration of the traditional view.

Further interest in free-market environmentalism has been awakened, in part, by the failures of centralized government control in Eastern Europe and the Soviet Union. As glasnost lifted the veil of secrecy, press reports identified large areas where brown haze hung in the air, where people's eyes routinely burned from chemical fumes and where drivers had to use headlights in the middle of the day. In 1990 The Wall Street Journal quoted a claim by Hungarian doctors that 10 percent of the deaths in Hungary may be directly related to pollution. The New York Times reported that parts of the town of Merseburg, East Germany, were "permanently covered by a white chemical dust, and a sour smell fills people's nostrils."

For markets to work in the environmental field, as in any other, rights to each important resource must be clearly defined, easily defended against invasion, and divestible (transferable) by owners on terms agreeable to buyer and seller. Well-functioning markets, in short, require "3-D" property rights. When the first two are present—clear definition and easy defense of one's rights—no one is forced to accept pollution beyond the standard acceptable to the community. Each individual has a right against invasion of himself and his property, and the courts will defend that right. And when the third characteristic—divestibility—is present, each owner has an incentive to be a good steward: preservation of the owner's wealth (the value of his or her property) depends on good stewardship.

Environmental problems stem from the absence or incompleteness of these characteristics of property rights. When rights to resources are defined and easily defended against invasion, all individuals or corporations, whether potential polluters or potential victims, have an incentive to avoid pollution problems. When air or water pollution damages a privately owned asset, the owner whose wealth is threatened will gain by seeing that the threat is abated, in court if necessary. In England and Scotland, for example, unlike in the United States, the right to fish for sport and commerce is a privately owned, transferable right. This means that owners of fishing rights can obtain damages and injunctions against polluters of streams. Owners of these rights vigorously defend them, even though the owners are often small anglers' clubs whose members have modest means. They have formed an association that is ready to go to court when their fishing rights are violated by polluters. Such suits were successful well before Earth Day and before pollution

control became part of public policy. Once rights against pollution are established by precedent, as these were many years ago, going to court is seldom necessary.

Thus, liability for pollution is a powerful motivator when a factory or other potentially polluting asset is privately owned. The case of the notorious waste dump, Love Canal, illustrates this point. As long as Hooker Chemical Company owned the Love Canal waste site, it was designed, maintained, and operated (in the late forties and fifties) in a way that met even the Environmental Protection Agency standards of 1980. The corporation wanted to avoid any damaging leaks, for which it would have to pay.

Only when the waste site was taken over by local government—under threat of eminent domain, for the cost of one dollar, and in spite of warnings by Hooker about the chemicals—was the site mistreated in ways that led to chemical leakage. The government decision makers lacked personal or corporate liability for their decisions. They built a school on part of the site, removed part of the protective clay cap to use as fill dirt for another school site, and sold off the remaining part of the Love Canal site to a developer, without warning him of the dangers as Hooker had warned them. The local government also punched holes in the impermeable clay walls to build water lines and a highway. This allowed the toxic wastes to escape when rainwater, no longer kept out by the partially removed clay cap, washed them through the gaps created in the walls.

The school district owning the land had a laudable but narrow goal: it wanted to provide education cheaply for district children. Government decision makers are seldom held accountable for broader social goals in the way that private owners are by liability rules and potential profits. Of course, mistakes can be made by anyone, including private parties, but the decision maker whose private wealth is on the line tends to be more circumspect. The liability that holds private decision makers accountable is largely missing in the public sector.

Nor does the government sector have the long-range view that property rights provide, which leads to protection of resources for the future. As long as the third D, divestibility, is present, property rights provide long-term incentives for maximizing the value of property. If I mine my land and impair its future productivity or its groundwater, the reduction in the land's value reduces my current wealth. That is because land's current worth equals the present value of all future services (see Present Value). Fewer services or greater costs in the future mean lower value now. In fact, on the day an appraiser or potential buyer first can see that there will be problems in the future, my wealth declines. The reverse also is true: any new way to produce more value—preserving scenic value as I log my land, for example, to attract paying recreationists—is capitalized into the asset's present value.

Because the owner's wealth depends on good stewardship, even a shortsighted owner has the incentive to act as if he or she cares about the future usefulness of the resource. This is true even if an asset is owned by a corporation. Corporate officers may be concerned mainly about the short term, but as financial economists such as Harvard's Michael Jensen have noted, even they have to care about the future. If current actions are known to cause future problems, or if a current investment promises future benefits, the stock price rises or falls to reflect the change. Corporate officers are informed by (and are judged by) these stock price changes.

This ability and incentive to engage in farsighted behavior is lacking in the political sector. Consider the example of Seattle's Ravenna Park. At the turn of the century, it was a privately owned park that contained magnificent Douglas firs. A husband and wife, Mr. and Mrs. W. W. Beck, had developed it into a family recreation area that brought in thousands of people a day. Concern that a future owner might not take proper care of it, however, caused the local government to "preserve" this beautiful place. The owners did not want to part with it, but following condemnation proceedings the city bought the park.

But since they had no personal property or income at stake, local officials allowed the park to deteriorate. In fact, the tall trees began to disappear soon after the city bought it in 1911. The theft of the trees was brought to official attention by a group of concerned citizens, but they continued to be cut. Gradually, the park became unattractive. By 1972 it was an ugly, dangerous hangout for drug users.

In contrast, private individuals and groups have preserved wildlife habitats and scenic lands in thousands of places in the United States. The sidebar lists more than fifty such state and local land trusts in Oregon and California alone. The 1980 National Directory of Conservation Land Trusts lists 748 local, state, and regional land trusts serving this purpose. Many other state and local groups have similar projects as a sideline, and national groups such as the Nature Conservancy and the Audubon Society have hundreds more. None of these is owned by the government. Using the market, such groups do not have to convince the majority that their project is desirable, nor do they have to fight the majority in choosing how to manage the site. The result, as the federal government's Council on Environmental Quality has reported, is an enormous and healthy diversity of approaches.

Even the lack of property rights today does not mean that a useful property rights solution is forever impossible. Property rights tend to evolve as technology, preferences, and prices provide added incentives and new technical options. Early in American history, property rights in cattle seemed impossible to establish and enforce on the Great Plains. But the growing value of such rights led to the use of mounted cowboys to protect herds and, eventually, barbed wire to fence the range. As economists Terry Anderson and Peter J. Hill have shown, the plains lost their status as commons and were privatized. Advances in technology may yet allow the establishment of enforceable rights to schools of whales in the oceans, migratory birds in the air, and—who knows?—even the ozone layer. Such is the hope of free-market environmentalism.

About the Author

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Further Reading

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