

*RE-THINKING GREEN: ALTERNATIVES TO ENVIRONMENTAL BUREAUCRACY.* EDITED BY ROBERT HIGGS AND CARL P. CLOSE. OAKLAND, CALIF.: THE INDEPENDENT INSTITUTE, 2005.

Since the early 1970s, environmental threats have become an important issue in most developed countries. These threats have attracted the attention of the general public due to alarming studies such as Donella Meadow's *Limits to Growth*, Rachel Carson's *Silent Spring*, and large catastrophes, such as the sinking of the oil tanker *Exxon Valdez*. Problems such as resource exploitation, species extinction, and various forms of pollution have also pushed environmental issues to the forefront of the international political scene. Consequently, interventionist environmental policy has been supported by the army of conservation movements, with the assistance of representatives of environmental economics, and the arguments of so-called ecological economists.<sup>1</sup>

As a result, American and European Union citizens and businesses now face an enormous number of environmental regulations on water, air, biodiversity, waste, land, forests, etc. and this seems to be only a beginning. According to reports from

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<sup>1</sup>Due to the confusion of terms in this area, I suggest the following characterization of particular groups that try to distinguish themselves from each other.

*Conservationism* (or environmentalism), social and philosophical movements related to protection of the natural environment represented by various nongovernmental groups lobbying for nature conservation.

*Ecological economics*, founded in the 1980s, described as science that integrates elements of economics, ecology, thermodynamics, ethics, and a range of other natural and social sciences to provide an integrated and biophysical perspective on environment-economy interactions, aimed at contributing to structural solutions to environmental problems. The core of ecological economics can be associated with the goal of sustainable development, interpreted as both intra- and intergenerational equity. (Bergh 2000, p. 5)

*Environmental economics*, established in the 1960s-80s, following the neoclassical tradition of welfare economics—e.g., externality theory (based on Arthur C. Pigou), theory of public goods, etc. Over the past 20 years, it has been strongly influenced by environmental (ecological) ethics.

international organizations,<sup>2</sup> natural resources are still being exploited and biodiversity is still decreasing. Besides the war against terrorism, solving the environmental crisis remains the second biggest challenge in our global world. Therefore, in the near future even more action has to be taken by the governments.

*Re-Thinking Green: Alternatives to Environmental Bureaucracy* is an excellent book of easy-reading essays dealing with environmental policy from the perspective of "free-market environmentalism" which combines ideas of public choice theory and Austrian economics.<sup>3</sup> Authors, including Roy Cordato and Bruce Yandle, critically review the past 30 years of environmental regulation with the focus on its tools as well as its doubtful results. Not surprisingly, most of those evaluations do not end up very complimentary to current environmental policy. The economic arguments and empirical observations presented in the book remove the readers' "rose-colored glasses" regarding government action and force them to think about alternative solutions. As Robert Higgs states in the introduction:

Like the consumer who discovers that sausages are less appetizing after he or she sees how they are made, students of public choice learn that political processes—even revered democratic ones—often result in outcomes far different from those described in high school civics classes. (p. 2)

The main goal of this book is to help reconsider our (often idealistic) view on government regulation in the field of environmental protection, but most of the critiques are not followed by possible alternatives to the government regulation. In some essays we find calls for the re-establishment of property rights and respect for individual freedom,<sup>4</sup> but the questions of "why" and "how" often remain unanswered. The reader gets the clear impression that something is wrong, but little detail regarding alternative approaches. To help fill this gap I would therefore recommend some of the work done on this topic by Austrian economists and the collection *Economics and the Environment* (1997) edited by Walter Block.<sup>5</sup>

#### ENVIRONMENTAL POLICY IN GENERAL

The roots of current environmental policy lie in ideas of the conservationist movement, which has been calling for government action to protect nature and proclaiming the unsustainability of existing capitalistic economies. Over the past few decades, those ideas were developed into more sophisticated and (on first impression) more economically sound arguments within the so-called *ecological economics*. By using economic vocabulary and neglecting economic principles (e.g., the absence of value judgments, man's rationality, acceptance of a trade-off between production and nature

<sup>2</sup>E.g., Agenda 21, United Nations.

<sup>3</sup>Free-market environmentalism is defined as "an ideology that argues the free market is the best tool to preserve the health and sustainability of the environment. This is in sharp contrast to the most common modern approach of looking to government intervention to help prevent excessive destruction of the environment." [www.wikipedia.org/wiki/Free\\_market\\_environmentalism](http://www.wikipedia.org/wiki/Free_market_environmentalism). For more details see Anderson (2001).

<sup>4</sup>Mostly with cross-references to Terry Anderson, and less to Ludwig von Mises, Murray Rothbard, and Hans-Hermann Hoppe.

<sup>5</sup>E.g., Cordato (2005), Anderson (2001), and Hoppe (2004).

protection), ecological economists distinguish themselves from both conservationists and environmental economists, and have had a regrettably substantial influence on the latter group over the past 20 years.

Jacqueline Kasun's essay "Doomsday Every Day: Sustainable Economics, Sustainable Tyranny" describes the work of two important representatives of ecological economics, Herman Daly and Steven C. Hackett. Kasun brilliantly points out the connection between calls for sustainable development of society and the "family planning" contained in the writings of those scientists:

Daly, an economist, first came to national attention during the 1970s when the Joint Economic Committee of Congress published his plan for reducing births by government licensing. As in China, the government would issue the licenses in the restricted numbers requisite for achieving its population targets, and persons attempting to give birth without licenses would be punished. Unlike the Chinese system, the licenses could be bought or sold, as in the modern schemes for emissions control. (Daly 1976; quoted from Kasun's article p. 45)

All this in the name of the sustainable target that:

population must be stabilized at a level consistent with the capacity of the earth to support its inhabitants, whatever that capacity might be. (President's Council 1995, pp. 44)

Although most people agree with the ideal of sustainable development (covertly linked to the maintenance of nature in a pristine state), hardly anybody can imagine the ultimate consequences of the adoption of methods consistent with achieving it. The loss of the freedom regarding the right to decide how many children to have is a vivid example of what is involved.

Ecological economists usually do not waste much time with economic arguments or even question why we should reach conditions of sustainable development. They simply find current social systems (based to a large extent on voluntary trade and private ownership) as inherently destructive and call for reforms driven by ideas of Rousseau's property rights schemes<sup>6</sup> and cooperative decision making (p. 52). The means to reach the goals set by these scientists is government coercion through which they can force the masses to adopt their "sustainable" values (usually in the name of saving us from ecological crisis). As brilliantly summarized into one sentence by Kasun: "In plain English, we are to treat nightmarish visions of the far-distant future as if they were present reality. Stop arguing. It's an emergency. Do as WE say, now" (p. 57).

Kasun also briefly touches the heart of ecological economics, with its ethical judgment of "how the world should look." This topic is further developed in the article by Robert Nelson: "Does 'Existence Value' Exist? Environmental Economics Encroaches on Religion." Here the book shows that there is a philosophical dispute over the real source of "ecological" or "environmental" ethics<sup>7</sup>—e.g., Bentham's utilitarianism (Kasun), the religious tradition (Nelson), and the Malthusian theory of stagflation (Pearce and Turner 1990), but there are no disputes among ecological economists about the fact that human values expressed in voluntary exchange have to be corrected. The data for

<sup>6</sup>According to Rousseau, private property "alienates people from nature . . . [and] leads to inequality . . . and wars" (as quoted in Hackett 1998, p. 52).

<sup>7</sup>More on this issue in Pojman (2000).

such a correction have to be produced by experts (ecological economists) who are able to determine the balance between ecosystems and human beings with respect to the needs of both. These ethical judgments strongly distinguish ecological economics from the science of economics and it should not be surprising that the interpretation of economic principles within ecological economics is misleading (and often wrong).

Another interesting essay called "Market-Based Environmentalism and the Free Market: They're Not the Same" was written by Roy Cordato (1997). His main idea was to clearly distinguish between market-based instruments of the current environmental policy (e.g., taxes, emission trading permits etc.) and the free-market approach to environmental problems. In Cordato's words:

Yet despite widespread rejection of outright socialism and command-and-control policies, there is little appreciation of truly free markets and the outcomes they are likely to generate. Policy makers do not value market exchange because it maximizes liberty and personal satisfaction of wants. Instead, policy makers value the market because they can manipulate it to produce a centrally planned outcome. This approach describes so-called market-based environmental policy. . . . Specifically, government authorities first select a particular outcome (e.g., level of sulfur dioxide emissions or amount of recycled paper used in grocery bags) as a desirable goal. Viewing the behavior of individuals making exchanges in the relevant markets as something to be manipulated through public policies that create incentives to "do the right thing," policy makers then select an appropriate means for this purpose. (p. 367)

On the other hand:

In general, free-market advocates argue that nature will fare better under a regime of private property and free exchange than it will under other institutional arrangements, because the profit motive, coupled with the obligation not to violate the property rights of others, leads to the conscientious stewardship of natural resources. (p. 371)

In the essay, Cordato shows why so-called market-conformable instruments of environmental policy are still far from pursuing real free markets. He also introduces the key argument against state environmental policy: environmental problems are not caused by "market failures" (e.g., externalities, public goods, etc.) as traditionally viewed, but by "government failures" (p. 368). Governments failed in the consistent establishment of property rights to natural resources and that is why markets cannot work properly in the allocation of these resources. The solution to environmental "crisis" is therefore not to treat problems of externalities or public goods, but to correct government failure by establishing the appropriate institutional setting. This view is shared by most free-market (environmental) economists.

In *Re-Thinking Green*, Cordato's article is criticized by Peter Hill in his essay "Market-Based Environmentalism and the Free Market—Substitutes or Complements?":

Cordato's insights are valuable, but he does not go far enough. He identifies the solution to environmental problems as well-defined and-enforced private property rights, but he does not provide a theory or evidence of how such property rights come into being. (p. 384)

According to Hill, unless "an adequate theory of the creation and change of property rights" is developed (or explained), to talk about the ideal system of property rights is unrealistic in the same way as the "nirvana model of perfect competition"

(pp. 384 and 391). He sees the main obstacle to the spontaneous establishment of property rights as the existence of transaction costs.

[T]ransaction costs prevent some potentially profitable voluntary exchanges from taking place. Through the use of appropriate rules, government can provide feasible alternatives. In the standard examples of roads and national defense, the transaction costs of individual exchange are high and the free-rider problem substantial. Thus, there is at least some potential for using tax-financed provision of these public goods as a corrective mechanism . . . we should not automatically rule out all government intervention. (p. 385)

Applying the concept of transaction costs to the property rights problem:

the transaction cost of defining and enforcing rights in some cases are very high and that the coercive power of government can be used productively to give us solutions that are better than not taking any action at all. (p. 386)

In other words, Hill defends a well-known concept of public goods which would not be produced, if the responsibility for providing such goods is given to markets. Such a public good is, e.g., solving a problem of global warming (p. 390). If the transaction costs of solving this problem are too high (property rights to air are not and cannot be well established), then it is legitimate for the government to take action such as taxes or emission trading permits. Because of the many problems related to government regulations mentioned by Cordato and others, "government ought to move with extreme caution in implementing solutions of this type" (p. 391).

Since the critique of public goods and transaction costs has been done by many Austrian economists, I will not devote much time to the issue in this review, but to briefly oppose Hill's thoughts on transaction costs, I would like to quote Barry Brownstein on the topic:

If . . . the transaction costs exceed the benefits from any trade, an agreement will not be reached. Under these circumstances many economists argue that the market has "failed" and that government intervention is therefore necessary. However, to argue for the government . . . [action] is to ignore the fact that transaction costs are real costs which must be considered when making a trade. . . .

The existence of transaction costs explains why certain trades do not take place in the market. It does not logically follow from the concept of Pareto optimality that the trade should have taken place. Asserting that the trade should have taken place is equivalent to stating that transaction costs are not real costs and somehow should not have been considered by the parties involved. (Brownstein 1980, p. 5)

As Brownstein further points out, transaction, transportation, production, and other costs are all the same. They make us weigh benefits from every action and they can also prevent us from undertaking a certain action, if considered to be too high. There is no reason to treat "transaction costs" as something different. Therefore, by themselves they are not a reason for the government intervention.

But—taking into consideration Hill's example of global warming—can a free-market economist accept the situation of high transaction costs preventing people from taking action against global warming of the planet? Or, in such a specific case, is government action better than nothing? According to George Reisman, the answer to the second question is: NO.

[E]ven if it is true that the combined effect of the actions of several billion people really is to cause global warming or ozone depletion (neither of these claims has actually been proven—the claims of global warming have all the certainty of a weather forecast, extended out to the next 100 years!), but even if, as I say, the claims were true, it still would not follow that any proper basis existed for prohibiting any specific individual or individuals from acting in ways that, only when aggregated across billions of individuals, resulted in global warming or ozone depletion or whatever. If global warming or ozone depletion or whatever really are consequences of the actions of the human race considered collectively, but not of the actions of any given individual, including any given individual private business firm, then the proper way to regard them is as the equivalent of acts of nature. ....

Once we see matters in this light, it becomes clear what the appropriate response is to such environmental change. . . . It is the same as the appropriate response of man to nature in general. Namely, individual human beings must be free to deal with nature to their own maximum individual advantage, subject only to the limitation of not initiating the use of physical force against the person or property of other individual human beings. By following this principle, man will deal with any of the negative forces of nature resulting as byproducts of his own activity taken in the aggregate in precisely the same successful way that he regularly deals with the primary forces of nature. (Reisman 2002, p. 11)

In the light of Brownstein and Riesman's arguments, Hill's advocacy for specific cases, in which the property rights approach "does not work," has to be rejected.

#### SPECIFIC ENVIRONMENTAL REGULATION: THE CASE OF ENDANGERED SPECIES

From the discussion about the essence of ecological economics we move to the consequences of their practical application. Randy Simmons describes the absurdity surrounding the introduction and the enforcement of the Endangered Species Act (ESA), one of the most important U.S. environmental laws issued in the 1970s. The goal of the act is to protect all species labeled as threatened or endangered.

[The act] operates by assigning infinite value to every species and declaring that each must be saved. . . . Such high-minded claims may be emotionally satisfying, but by themselves they provide little guide to policy. The question remains: What to do now? (p. 110)

Simmons shows that the ESA does not consider the opportunity costs of protecting the species in question (although it is obvious we cannot save all species, everywhere and as much as possible) and that this is the reason why the act became a powerful tool of despotism in hands of government officials and conservationists.

Lists of threatened or endangered species contain more than a thousand habitats and the lists are updated to reflect changing data. The limitations placed on private property rights caused by the ESA can vary "from mild irritations to loss of almost all economic value of the land" without a right to be compensated for such losses (p. 110). The true costs of saving particular species are therefore often "invisible."

Endangered-species policy makes it unlawful for any private citizen to interfere in any way with an endangered species or its habitat, and it imposes severe

penalties on those who do. Farmers violate the ESA if they plow their land and in some cases even if they allow grazing in a pasture when an endangered species is present. In many cases, property owners are prohibited from cutting trees, clearing brush, using pesticides, planting crops, building homes, protecting livestock or even protecting themselves from predators, and building roads. They are often required to set aside numerous acres for no purpose other than aiding the endangered species. (p. 119)

Despite this severe interference in the private ownership of the land, Simmons also points out the poor results of the ESA after more than 30 years of its functioning as measured by the number of listed species actually saved from extinction.

A 1994 Fish and Wildlife Service report identified twenty species as having been delisted, eight because they had become extinct and eight others because the original data used to justify their listing were in error. (U.S. Fish and Wildlife Service 1994b, pp. 41-42)

Regarding these numbers, there is a question if government money spent on the species protection and the enormous private opportunity costs from not-using land are justified by legislation which in the end is very far from achieving its goal.<sup>8</sup> Simmons's article is an excellent excursion into the practice of the environmental policy and points out some of the many absurdities of environment policy in practice:

During the 1970s the Mexican duck was listed as endangered, but it was later removed upon discovery that there is no such thing as a "Mexican" duck. What biologists initially thought was a distinct species turned out to be a blue-eyed version of a mallard that was not genetically different from regular mallards. (U.S. Fish and Wildlife Service 1978)

In 1986 the tumamoc globeberry was listed, and plans were implemented to save it from extinction. From 1989 to 1991, the Bureau of Land Management, the Department of Defense, the Army Corps of Engineers, and the Bureau of Reclamation spent \$1.5 million to protect the globeberry. But the FSW eventually discovered that the tumamoc globeberry existed in far greater numbers and in more places than initially thought, so it was delisted. (U.S. Fish and Wildlife Service 1994b, pp. 111-12)

Such errors seem to be quite funny until they involve your own property rights in your house, land, and livelihood.

#### CONCLUSION

*Re-Thinking Green* clearly articulates the message that the current focus of environmental policy (i.e., to solve environmental problems through government regulation) is wrong. Particular authors improve our understanding of this insight by theoretical articles discussing the background of the environmental policy as well as by actual practical examples of its functioning. I would join the opinion of Roger Meiners on the back of the book cover and strongly recommend *Re-Thinking Green* for classroom use.

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<sup>8</sup>Several alternatives to government regulation have been suggested and discussed in many papers by economists. See, e.g., Block (1990), etc.

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