

## Greenbacks and a Greener World

By Matthew Baker

Over the last several decades, public interest in environmental issues has expanded exponentially. Unfortunately, much of this concern has been funneled against capitalism and markets. Liberals such as Paul Ehrlich and Helen Caldicott would even maintain that “capitalism is destroying the earth.”<sup>1</sup> Yet, the failure of many centrally planned environmental programs coupled with the success of market mechanisms seems to indicate the greenback is creating a greener world. As Fred L. Smith, President of the Competitive Enterprise Institute, correctly observed, “Free markets provide the means to improve both economically and ecologically.”<sup>2</sup>

### I. Failure of Environmental Regulation

Experts suggest that environmental regulations cost the U.S. economy \$197 billion a year.<sup>3</sup> Despite this massive cost, “environmental policy in the United States...for the most part has been...not very effective in enhancing environmental quality.”<sup>4</sup>

From the quaint pine groves in the Yellowstone wilderness to the stormy fisheries of the Atlantic coast, bureaucratic regulation is devastating our natural treasures. Over the last century, government regulators have engaged in a relentless drive to extend their

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<sup>1</sup> National Center for Public Policy Research. “Environmental Scientists: Dr. Helen Caldicott.” 8 Aug. 1993. (Quoting Helen Caldicott)

<sup>2</sup> Smith, Fred L. “A Free Market Environmental Program.” *Cato Journal*. Winter 1992.

<sup>3</sup> Crain, Mark W. and Thomas D. Hopkins. “The Impact of Regulatory Costs on Small Firms,” U.S. Small Business Administration, RFP No. SBAHQ-00-R-0027, Oct. 2001.

<sup>4</sup> Independent Institute. “New Book Examines Maze of Failed Environmental Policies.” 11 July 2005. [http://www.independent.org/newsroom/news\\_detail.asp?newsID=55](http://www.independent.org/newsroom/news_detail.asp?newsID=55) (Accessed 29 Nov. 2005). (Quoting Carl P. Close and Robert Higgs)

authority over the natural resources of America. The Interior Department estimates that thirty percent of land in the United States is federally owned.<sup>5</sup> Within this zone, divinely inspired administrators have imposed enlightened conservation regimens with startling effects. For example, increased restrictions on logging in federal forests have “resulted in an increase in wildfires, from 25 per year in 1984 to more than 80 a year in recent years.”<sup>6</sup> The resulting ecological damage is incalculable. However, federal administrators apparently enjoy a good bonfire every once and awhile. When lightning ignited dry timber in Yellowstone, regulators prevented authorities from extinguishing the flames, opting instead to allow the fire to burn down half of the park.<sup>7</sup>

The fallibility of regulators is additionally revealed by the chemical genocide the Environmental Protection Agency has been waging against American citizens since 1979. Originally mixed with gasoline to comply with environmental emissions standards, methy tertiary-butyl ether (MTBE) was later revealed to be a carcinogen. Nerveless, millions of Americans were exposed to MTBE during two decades of use.

In offshore fisheries, regulation hasn't done much better. For the last three decades, the Federal Government has managed marine fisheries in waters 12 to 200 miles off the coast. Under the Magnuson-Stevenson Fishery Conservation and Management Act, fishermen are allowed short seasons in which to catch certain fish species. During these “derbies”, fishermen scurry to catch as many fish as possible. The incentive to conserve and manage aquatic resources is non-existent. The fishermen realize that if they

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<sup>5</sup> Department of the Interior. "Federal Lands and Indian Reservations." National Atlas. 4 Aug. 2005. <http://nationalatlas.gov/printable/fedlands.html>. (Accessed 29 Nov. 2005)

<sup>6</sup> Burnett, Sterling. "Excess fuels and forest fires." Washington Times. 29 July 2003.

<sup>7</sup> Hodel, Donald P. "Interview with Acton Institute." 2003.

don't catch the fish, someone else will. This has resulted in massive damage with over seventy percent of fisheries being overfished.<sup>8</sup>

A command and control approach to environmental conservation has failed for several reasons. First, regulators do not possess absolute knowledge. Environmental conservation is still an evolving science in which significant gaps exist. As is revealed by the MTBE fiasco, action believed to be environmentally friendly in one decade may be found to be harmful in the next. Even if regulators could determine what is best for the environment in the long term, they are often fed false information by political interest groups. Markets, on the other hand, internalize and correctly consider all information available through their demand, supply, and price systems.

Second, the essential element of rewards and consequences is often lacking from a regulatory regime. Regulators are not personally affected by decisions not to log on federal lands or to communalize fish hatcheries. As a result their opinion is often skewed. Overall environmental regulation is perhaps best characterized by Milton Friedman's observation that "the government solution to a problem is usually as bad as the problem."<sup>9</sup>

## **II. Environmental Problems and Property Rights**

Standing in stark contrast to the dismal record of regulation, market mechanisms such as property rights shine as a beacon of hope for conservationists. Adam Smith observed in the *Wealth of Nations*, that when natural resources were "in common" they

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<sup>8</sup> National Center for Policy Analysis, "Saving Ocean Fisheries," 2000. <http://www.ncpa.org/pd/pdenv30.html>. (Accessed 29 Nov. 2005)

<sup>9</sup> Densing, Carl. "The Land of a Thousand Lawsuits: Courts used for get-rich-quick schemes." California Patriot Foundation. March 2004.

“cost the labourer only the trouble of gathering them” but when property rights were established these same natural resources came “to have an additional price fixed upon them.”<sup>10</sup> The principle that an individual takes better care of his own property is self-evident to even the most casual observer. Whenever a businessman travels on the company’s expense he will always stay in more elegant hotels and dine at finer restaurants than if traveling on his own budget. Garret Hardin applied this same phenomenon at the macroeconomic level in his classic analogy of allocation of pasture. A nomadic society of herdsman shares a common grazing range. Each herdsman attempts to increase his herd to secure a more respectable position in society. Driven by the realization that any resource he does not consume will be consumed by his rival, the herdsman has no incentive to prevent overgrazing. However, if each herdsman is given a section of the common grazing range, an incentive for resource management is created. The herdsman is now directly benefited in the future by his decision to responsibly manage resources. As a result, grassland will be consumed at a responsible level.<sup>11</sup> With commonly owned resources, no single individual reaps the benefits or bears the cost of advantageous or harmful behavior. Common property is often a disincentive to conservation since individuals will benefit in the short term by resource exploitation while they receive no apparent reward for long term conservation. As former EPA special assistant RJ Smith noted, “private ownership allows the owner to capture the full

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<sup>10</sup> Smith, Adam. Wealth of Nations. Chapter 6: Of the component part of the price of commodities.

<sup>11</sup> Hardin, Garrett. “Tragedy of the Commons.” Science. 162(1968) 1243-1248.

capital value of the resource, and self-interest and economic incentive drive the owner to maintain its long-term capital value.”<sup>12</sup>

The success of property rights in promoting environmental conservation can be observed historically. For example, two hundred years ago the free ranging buffalo greatly outnumbered domesticated cattle. Yet, recently the buffalo has been on the verge of extinction while the cattle industry has grown exponentially. Likewise, massive flocks of passenger pigeons used to block out the sun while domesticated poultry inhabited a small section of the United States. Today, the passenger pigeon is extinct but a Kentucky Fried Chicken can be found on every corner of America. In both instances, property rights resulted in preservation and prosperity while the commonly held resource perished.

In hundreds of places around the world, environmental problems spanning decades are being solved by the implementation of property rights. According to a study by Dr. Michael McPherson and Dr. Michael Niewiadomy, both professors of economics at the University of North Texas, property rights may be the single most important factor in the revival of the African elephant population.<sup>13</sup> From 1979 to 1989, the African elephant population declined from 1.3 million to 750,000.<sup>14</sup> While elephants were in the common domain, they were viewed solely as a nuisance since they trampled crops and destroyed property. Ivory poachers were winked at and the elephant appeared headed for extinction. To solve these problems, the governments in eight South African nations “instituted community-based natural resource management programs, a property rights

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<sup>12</sup> Adler, Jonathan H. “Introduction To Ecology Liberty And Property.” Competitive Enterprise Institute. 5 June 2000.

<sup>13</sup> McPherson, MA and ML Niewiadomy. “African elephants: the effects of property rights and political stability.” *Contemporary Economic Policy*. Vol. 18, No. 1. January 2000.

<sup>14</sup> Smithsonian National Zoological Park. “African Elephants.” 2002.  
<http://nationalzoo.si.edu/Animals/AfricanSavanna/fact-afelephant.cfm>. (Accessed 29 Nov. 2005).

system that allows local tribes to receive benefit from the use of the elephants.”<sup>15</sup> Such a system allows the tribes to profit from the “harvest” of elephant ivory and, thus, institutes an incentive for responsible management. The results have been phenomenal. In countries where these reforms were implemented, such as Zimbabwe, populations increased from 52,000 in 1989 to a stunning 81,855 by 1994. However, in countries which did not implement reforms, such as Somalia, herds fell from 2,000 to 130 over the same time period.<sup>16</sup>

However, African elephant herds are not the only success story of a property rights approach to conservation. Overfishing has been combated in Iceland by property rights mechanisms such as Individual Transferable Quotas- a tradable fishing allowance. The result, according to University of Iceland political scientist Hannes Gissurarson, was that "most stocks in Icelandic waters have become stronger, in particular the valuable cod stock (at the same time as this stock has collapsed in other parts of the world)."<sup>17</sup>

Likewise, property rights have been used to a limited extent to reduce air pollution in the United States. In 1995, the federal government set a cap that reduced sulfur-dioxide. To reach this goal, tradable certificates were issued to the industry which matched their share of the cap. Companies that reduced emissions below their cap had extra certificates which were tradable to companies who were unable to reach their goals. Companies

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<sup>15</sup> University of North Texas News Service. "Property rights save animals, UNT study says." 12 Oct. 1999. <http://web2.unt.edu/news/story.cfm?story=7533>. (Accessed 29 Nov. 2005)

<sup>16</sup> National Center for Policy Analysis. "Property Rights May Save Elephants." 2000. <http://www.ncpa.org/pi/enviro/pd080400d.html>. (Accessed 29 Nov. 2005).

<sup>17</sup> Steelman, Aaron. "Fishing for Solutions: Policymakers Struggle to Curb Overfishing in the Chesapeake Bay," Resources For the Future. Summer 2002.

could also save their certificates to use for the next year as well. The result was a 30 percent reduction in emissions and billions in saving for the industry.<sup>18</sup>

### **III. Markets Solve Environmental Problems**

Yet, disregarding property rights, capitalism as a system improves environmental quality. First, companies have an economic incentive to minimize unnecessary waste to boost profit. For example the low price guru, Wal-Mart, is characterized by extremely efficient business practices. In order to maximize profits, Wal-Mart cut regional distribution centers opting instead for a system in which merchandise moves straight from the factory line into the stores. As a result, the retailer uses significantly less diesel fuel per dollar of sales than its competitors. In order to reduce bag costs, Wal-Mart also has implemented an extensive recycling program which is estimated to have saved hundreds of thousands of trees.<sup>19</sup> Second, a strong correlation can be observed between economic growth and environmental quality. Don Coursey, Professor of environmental economics at Washington University, has found that for every ten percent rise in income there is a accompanying thirty to fifty percent increase in the demand for environmental quality.<sup>20</sup> Simply put, individuals provide for their basic survival before they value the environment. As Marian Radetski, economist at the University of Luleo in Sweden, put it “rich consumers are more willing than poor ones to spend substantial parts of their

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<sup>18</sup> National Center for Policy Analysis. “Trading Pollution Permits.” 1998.  
<http://www.ncpa.org/pi/enviro/envpd/pdenv120.html>. (Accessed 29 Nov. 2005).

<sup>19</sup> McNery, Francis and Sean White. *The Total Quality Corporation: How 10 Major companies Added to Profits And Cleaned up the Environment in the 1990s*. Penguin Books. February 1997.

<sup>20</sup> Shaw, Jane S. “Perspective: Risk, Rights, and Regulation.” *The Freeman*. March 1995.

income for safeguarding high environmental standards.”<sup>21</sup> Empirical data substantiates this hypothesis. World Bank estimates indicate that the economies of the Organization for Economic Cooperation and Development (OECD) have grown 80 percent over the last 35 years. During this interval clean water, sanitation, and waste disposal systems have become universally available. Air quality has significantly risen with a documented 60 percent decrease in particulate matter and a 38 percent decrease in sulfur dioxide. In addition, oil spills have decreased and forest reserves have grown.<sup>22</sup>

The evidence is conclusive that the greenback is creating a greener world. Reliance on a command and control approach to improve the environment is dubious. As Alan Greenspan holds, “the verdict on rigid central planning has been rendered, and it is generally appreciated to have been unqualifiedly negative.”<sup>23</sup> Anyone truly interested in preserving the earth for future generations is forced to turn to a market approach. From the plains of Africa to the fjords of Iceland, property rights are improving the environment. More significantly, economic development, for the first time in millennia, is bringing true environmental quality into the reach of billions. Rather than bringing about its demise, capitalism may actually be required to preserve the planet.

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<sup>21</sup> James M. Sheehan, “Free Trade is Green Trade.” Competitive Enterprise Institute. 1 June 2000. <http://www.cei.org/gencon/019,03111.cfm>. (Accessed 29 Nov. 2005).

<sup>22</sup> Ibid.

<sup>23</sup> Greenspan, Alan. “Remarks by Chairman Alan Greenspan: Before the Bundesbank Lecture, Berlin, Germany.” 13 Jan. 2004.