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Free Market Environmentalism

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BOOK REVIEW

FREE MARKET ENVIRONMENTALISM.

TERRY L. ANDERSON and DONALD R. LEAL
Westview Press. 1991. Pp. 192. \$14.95.

Whenever a conversation develops around the topic of the environment, it usually begins with the premise that government must do something. Congress should pass a law to regulate or prohibit this or that because failure of government to act will result in environmental degradation.

Anderson and Leal take a different approach. These authors examine the prospects and pitfalls for improving natural resource allocation and environmental quality through market processes. They show how government policies often make matters worse rather than better because of inadequate information and incentives.

Anderson and Leal take a property rights approach to environmental economics. They focus on the costs of operating markets and lay the framework for thinking about problems ranging from the American Frontier to homesteading the oceans and marketing garbage. They advocate property rights solutions that encourage market processes in the areas of land management, outdoor recreation, water quantity and quality and ocean fisheries. Their last chapter attacks the tougher problems of global warming and acid rain.

The basis of free market environmentalism is a system of well-defined property rights. The role of government is to define and protect these rights. When property rights are well defined, market processes can encourage good stewardship. When rights are unclear or not well defined, over-exploitation can occur.

The theory of free market environmentalism is based on certain visions of human nature, knowledge and processes. It views humans as self-interested. Any environmental ethic that disregards human nature is doomed to failure. One that recognizes it has a chance to succeed, depending on how well social institutions can harness self-interest through individual incentives.

Free market environmentalism adopts the Hayekian view that knowledge is diffused rather than concentrated. The environment cannot be managed from afar because the people in Washington do not have sufficient information to work with. Ecosystems depend on the interaction of

many different natural forces and the information needed for good management varies from place to place and time to time, which makes it necessary to obtain the needed information "on the ground" rather than from afar. There is not much of a knowledge gap between the experts and the average individual property owner, and property owners have more of an incentive to obtain the necessary information to protect their resources than do some distant bureaucrats, who do not have their own wealth on the line.

Free market environmentalism involves the study of processes rather than solutions. It links wealth to good stewardship through private ownership. The key to success is to provide decision makers with the incentives to manage resources properly. Central planning fails not only because the central planners do not have sufficient information or the right incentives, but also because the bureaucrats in the trenches ignore the advice of experts and make decisions based on their own self-preservation rather than that of the environment. The central planning model is structurally flawed and no amount of tinkering will solve environmental problems without well-defined property rights.

Anderson and Leal suggest a series of solutions to a variety of environmental problems and pepper their arguments with real life case studies to support their view that basing the solution to environmental problems on well-defined property rights can work. Protecting the environment does not have to be a zero-sum game where environmentalists are at odds with developers. Properly structured programs can result in solutions where all parties come out ahead. In the nineteenth century American West for example, ranchers at one time could graze their cattle anywhere they wanted because there was enough room for anyone who wanted to graze. As grass became depleted, they moved on to another location. But as the west became more crowded, it became necessary to erect fences so that grazing land, which had become in short supply, could be protected from overuse. The invention of barbed wire made the enforcement of property rights in grazing land economically viable. It was not until the federal government passed a law outlawing fences that grasslands became seriously depleted and range wars became inevitable. Prior to that, cattlemen were able to define property rights privately and peacefully, by getting together and solving their problems by consensus.

In many cases, environmental degradation is the result of government. For example, during the nineteenth century, more than one million board feet of timber in the Great Lakes region was illegally cut by lumber companies that trespassed on the private land of others. Had the government merely enforced property rights, this rape of the land never would have occurred. Lumber companies also stole timber from public lands, which caused the price of all lumber -- including that on private land -- to

drop. Owners of private forests saw their assets decline in value because timber was being dumped on the market by timber thieves. Honest lumbermen could not compete with lumber thieves. Yet Congress pushed for legislation that would reduce the penalty for stealing trees.

Another case of government failure (as opposed to market failure) occurred in Ravenna Park, outside of Seattle, Washington. The Beck family owned the park, which contained giant fir trees that reached 400 feet in height and 20 feet in diameter. They built a pavilion for nature lectures and concerts and added benches, paths and totem poles. The park was very popular with visitors, who could pay a small fee for a one-day pass or a larger fee for a one-year pass. Conservationists lobbied the government to condemn the park. The government took it over, and shortly thereafter, the trees began to disappear. The public employees, who were hired to protect the property, were cutting the trees and selling the wood for cordwood. They also did not prevent others from cutting. Within a few years, all the large trees were gone. Now, the park just like any other park with tennis courts and playgrounds.

In other cases of government failure, federally subsidized irrigation projects allowed rivers and lakes to be overdrained, with the result that thousands of fish died needlessly. Recreational uses (fishing) were sacrificed to farming interests (irrigation). Had the water been privately owned, the pricing system that would have developed would have allocated this scarce resource so that both fishermen and farmers (whose land was under six inches of water because of the irrigation) could have had a sufficient amount of water for their purposes.

Privately owned resources tend to be better managed than publicly owned resources because the incentives to preserve are stronger when decisionmakers have a stake in the outcome. Private owners will see that their property is not overused. They have to protect their investment. But government bureaucrats who are in charge of public lands have no incentive to prevent overuse. In fact, their goal often is to attract the maximum number of visitors and charge the lowest price possible, which encourages overuse. For example, the Forest Service charged recreational fees of \$191,000 in Gallatin National Forest in southwestern Montana in 1988, but incurred maintenance costs of more than \$2 million. Private owners would soon go out of business if they tried to do the same thing. Turning over the Gallatin National Forest to a private owner would change the way the forest is operated. Fees would increase and overuse would stop. The pricing mechanism, which is absent in the case of government ownership, would act as a stabilizing influence to prevent overuse of scarce resources.

The authors provide many other examples that show how private ownership of resources, and a price system, do a better job of preserving

natural resources and the environment than a command system, which relies on entirely different incentives. They apply the market approach to wildlife, hunting, fishing, recreation, garbage disposal, oil and gas exploration and other areas of concern to environmentalists and ecologists and present convincing evidence to support their free market views.

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