

CRE PERSPECTIVE

FREE MARKET ENVIRONMENTALISM

by Bowen H. "Buzz" McCoy, CRE

DEFINITIONS

With the selection by President George W. Bush of Christine Todd Whitman as Environmental Protection Agency Administrator and Gale A. Norton as Secretary of the Interior, there was considerable interest in their libertarian, market-based policies, sometimes referred to as **free market environmentalism**. Free market environmentalism has been described as a philosophy that is grounded in property rights, voluntary exchange, common law liability protection, and the rule of law—all of which seek to integrate environmental resources into the market system.

Free market environmentalism conflicts with traditional environmentalism in its visions regarding human nature, knowledge, and processes. With respect to **human nature**, man is viewed as self-interested. This self-interest may be enlightened to the extent that people are capable of setting aside their own well being; but good intentions will not produce good results. Instead of intentions, good resource stewardship depends on how well social institutions harness self-interest through individual incentives.

Knowledge and information cannot be general and global, but must be time- and place-specific. These visions of knowledge and human nature make free market environmentalism a study of **process** rather than a prescription for solutions. If we can rise above self-interest and if knowledge can be concentrated and specific, then the possibility for solutions through political control is feasible.

Many environmental problems are caused by the **"tragedy of the commons."** If access to a valuable resource is unrestricted, people entering the commons to capture its value will ultimately destroy it. Even if each individual recognizes that open access leads to resource destruction, there is no incentive for him/her to refrain from overgrazing the common pasture or over-harvesting the fish. If he/she does not take it, someone else will, and therein lies the tragedy. There is no community in which to regulate individual self-interest. The individual, who is unconstrained and wastes a community resource, through over-grazing, pollution, or the like, is called a **free rider**. He/she does

not pay for the value or cost of what he/she takes away from the community.

Transaction costs become important. It is costly to restrict entry. The costs of organizing and bargaining can be high. **Information costs** are the costs or values attributed to what is taken from the community. What is the cost of my backyard barbecue polluting your air? How much of such pollution should be allowable? What are the costs and benefits of drilling for petro-chemicals in the Arctic National Wildlife Refuge? Such costs are difficult and expensive to obtain in the absence of established markets for wildlife habitat, or hiking, or snowmobiling. In order to solve environmental problems, we must find ways of discovering and articulating this type of information. Once such values and costs are determined, rational choices can be made and rights can be marketed or traded.

Free market environmentalism identifies systematic differences in the way information about subjective values is communicated in markets and politics. In the marketplace, prices convert subjective values into objective measures. In the political process, voting is a signal that communicates the subjective values, especially of special interest groups. Special interest groups lower the cost of information to its members, allowing legislation to pass which costs each taxpayer a few pennies, but provides significant benefits to the special group.

COMMUNITY MANAGEMENT SYSTEMS

Community management systems have evolved over hundreds of years to manage issues such as the tragedy of the commons. They seem to contain six basic factors:

1. Boundaries must be clearly defined so that individuals know what they can use and others know when they are trespassing.
2. Rules are required to determine how the value of the resource is parceled out.
3. Rules must be specific as to time- and place-specific resource constraints, or there will be pressure to change them.
4. There must be effective monitoring of the rules, and a system of rewards and sanctions imposed.
5. Dispute resolution mechanisms at the local level are necessary.
6. The rules must not be subject to change by higher levels of government.

An example may be given of the destruction of the Nepalese forests. The national government chose to ignore previously successful community arrangements,

and all the forests were placed under central control of the government. The act led to a chain of destruction that resulted in the removal of almost half of the trees in Nepal's forests. Nepalese villagers began free riding, systematically overexploiting their forest resources on a large scale. They had lost control of their forests.

Examples of free market environmentalism occur in areas such as grazing rights, hunting, multiple use of government lands, recreational land uses, water rights, pollution, fisheries, and the like. The argument is made that entrepreneurial pragmatists in the environmental movement have come up with incentive systems, such as trading unused rights to pollution or rewarding ranchers for protecting endangered species, which have led to more positive outcomes than either the government command and control systems or the legal process.

Market-based property rights evolved on the frontier, which was once open to all. Cooperative systems evolved for the ownership of land, livestock, and water. As the perceived values of assets changes over time, so do the incentives. With the use of global positioning systems, DNA testing, and radio and acoustical tagging of species, it is possible to imagine such solutions as tradable rights in whale harvests.

Public funding and bureaucratic controls have not solved such problems as lost salmon runs in the Pacific Northwest or the upkeep of our national parklands. The Endangered Species Act creates perverse incentives for landowners to take preemptive actions to eliminate wildlife habitat, rather than to preserve it.

Oil and gas leasing on public lands pits environmentalists, development companies, and state and local interests against one

another in the political process, where the stakes are high and the winner often takes all. This fosters acrimony rather than cooperation among disparate users of natural resources. Free market environmentalism emphasizes well-defined and enforced property rights. Where environmental groups own energy resources in sensitive wildlife reserves, they become willing to make trades because they see costs in not deploying a valuable asset. By forcing price and opportunity cost discovery, free market environmentalism can assist in the determination of rational choices where all might benefit.

CONCLUSIONS

Critics of free market environmentalism include those who state that environmentalism is a moral issue and should not be decided by cost/benefit analysis. Others claim that rights to magnificent landscapes and wild animals are more important than the rights conferred to property owners. They state that environmentalists would be willing to pay more for such rights if only they, or the government, had the resources. The case is made that the distribution of wealth favors private landowners over environmental preferences.

I would agree with critics who state that environmentalism is a moral issue. Pure air and water and gorgeous sunsets have aesthetic values and cannot be evaluated solely in dollars and cents, but must be valued out of our deepest sense of who we are and who we want to be. These deep intuitive yearnings, which stem out of our foundational beliefs, cannot always be bargained away. Living out an ethic, even an environmental ethic, is not about always winning. It is about what we are willing to sacrifice for. Always equating ethics with winning diminishes the depth of ethical commitment.

Moreover, the command and control systems imposed by various government levels give some assurance that the public's will might be done. Systems based upon virtue, free bargaining, and perfect information are commendable and should be used wherever possible. Given human nature, however, a system of rewards and punishments should also remain available.

It is my view that free market environmentalism offers a creative and positive way out of the morass of over-regulation and endless litigation. Rather than painting everyone as either for us or against us, as The Sierra Club and others are prone to do, this concept forces us to think hard about costs and benefits—to balance the rights and duties of all parties and to come up with a more balanced and effective solution.

Understanding free market environmentalism is important for any property owner who wants to gain a better understanding of the environmental movement, or wants to protect their property rights, as well as those who would like to better understand the public dialogue we can expect with Whitman and Norton, among others, over the term of the current administration.

Those wishing to learn more about the free market environmental movement are urged to contact the Political Economy Research Center (PERC) located in Bozeman, Montana (perc@perc.org).^{REI}

ABOUT THE AUTHOR

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