

The Market & Nature

Fred Smith Jr

Many environmentalists are dissatisfied with the environmental record of free economies. Capitalism, it is claimed, is a wasteful system, guilty of exploiting the finite resources of the Earth in a vain attempt to maintain a non-sustainable standard of living. Such charges, now raised under the banner of "sustainable development," are not new. Since Malthus made his dire predictions about the prospects for world hunger, the West has been continually warned that it is using resources too rapidly and will soon run out of something, if not everything. Nineteenth-century experts such as W. S. Jevons believed that world coal supplies would soon be exhausted and would have been amazed that over 200 years of reserves now exist. U.S. timber "experts" were convinced that North American forests would soon be a memory. They would similarly be shocked by the reforestation of eastern North America--reforestation that has resulted from market forces and not mandated government austerity.

In recent decades, the computer-generated predictions of the Club of Rome enjoyed a brief popularity, arguing that everything would soon disappear. Fortunately, most now recognize that such computer simulations, and their static view of resource supply and demand, have no relation to reality. Nevertheless, these models are back, most notably in the book *Beyond the Limits*, and enjoying their newly found attention. This theme of imminent resource exhaustion has become a chronic element in the annual *Worldwatch* publication, *State of the World*. (This book is, to my knowledge, the only gloom-and-doom book in history which advertises next year's edition.) Today, sustainable development theorists, from the World Bank's Herman Daly and the United Nations' Maurice Strong to Vice President Albert Gore and Canadian David Suzuki, seem certain that, at last, Malthus will be proven right. It was this environmental view that was on display at the United Nations' "Earth Summit" in Rio de Janeiro in 1992. This conference, vast in scope and mandate, was but the first step in the campaign to make the environment the central organizing principle of global institutions.

If such views are taken seriously, then the future will indeed be a very gloomy place, for if such disasters are in the immediate future, then drastic government action is necessary. Consider the not atypical views of David Suzuki: "[T]here has to be a radical restructuring of the priorities of society. That means we must no longer be dominated by global economics, that the notion that we must continue to grow indefinitely is simply off, that we must work towards, not zero growth, but negative growth." For the first time in world history, the leaders of the developed nations are being asked to turn their backs on the future. The resulting policies could be disastrous for all mankind.

The Environmental Challenge

The world does indeed face a challenge in protecting ecological values. Despite tremendous success in many areas, many environmental concerns remain. The plight of the African elephant, the air over Los Angeles, the hillsides of Nepal, the three million infant deaths from water-borne diseases throughout the world, and the ravaging of Brazilian rain forests all dramatize areas where problems persist, and innovative solutions are necessary.

Sustainable development theorists claim these problems result from "market failure": the inability of capitalism to address environmental concerns adequately. Free market proponents suggest that such problems are not the result of market forces, but rather of their absence. The market already plays a critical role in protecting those resources privately owned and for which political interference is minimal. In these instances there are truly sustainable practices. Therefore, those concerned with protecting the environment and ensuring human prosperity should seek to expand capitalism, through the extension of property rights, to the broadest possible range of environmental resources. Our objective should be to reduce political interference in both the human and the natural environments, not to expand it.

Private stewardship of environmental resources is a powerful means of ensuring sustainability. Only people can protect the environment. Politics per se does nothing. If political arrangements fail to encourage individuals to play a positive role, the arrangements can actually do more harm than good. There are tens of millions of species of plants and animals that merit survival. Can we imagine that the 150 or so governments on this planet--many of which do poorly with their human charges--will succeed in so massive a stewardship task? Yet there are in the world today over five billion people. Freed to engage in private stewardship, the challenge before them becomes surmountable.

Sustainable Development and Its Implications

The phrase sustainable development suggests a system of natural resource management that is capable of providing an equivalent, or expanding, output over time. As a concept, it is extremely vague, often little more than a platitude. Who, after all, favors non-sustainable development? The basic definition promoted by Gro Harlem Brundtland, former Prime Minister of Norway and a prominent player at the Earth Summit, is fairly vague as well: "[S]ustainable development is a notion of discipline. It means humanity must ensure that meeting present needs does not compromise the ability of future generations to meet their own needs."

In this sense, sustainability requires that as resources are consumed one of three things must occur: New resources must be discovered or developed; demands must be shifted to more plentiful resources; or, new knowledge must permit us to meet such needs from the smaller resource base. That is, as resources are depleted, they must be renewed. Many assume that the market is incapable of achieving this result. A tremendous historical record suggests exactly the opposite.

Indeed, to many environmental "experts," today's environmental problems reflect the failure of the market to consider ecological values. This market failure explanation is accepted by a panoply of political pundits of all ideological stripes, from Margaret Thatcher to Earth First! The case seems clear. Markets, after all, are shortsighted and concerned only with quick profits. Markets undervalue biodiversity and other ecological concerns not readily captured in the marketplace. Markets ignore effects generated outside of the market, so-called externalities, such as pollution. Since markets fail in these critical environmental areas, it is argued, political intervention is necessary. That intervention should be careful, thoughtful, even scientific, but the logic is clear: Those areas of the economy having environmental impacts must be politically controlled. Since, however, every economic decision has some environmental effect, the result is an effort to regulate the whole of human activity.

Thus, without any conscious decision being made, the world is moving decisively toward central planning for ecological rather than economic purposes. The Montreal Protocol on chlorofluorocarbons, the international convention on climate change, the proposed convention on biodiversity, and the full range of concerns addressed at the U.N. Earth Summit--all are indicative of this rush to politicize the world's economies. That is unfortunate, for ecological central planning is unlikely to provide for a greener world.

Rethinking the Market Failure Paradigm

The primary problem with the market failure explanation is that it demands too much. In a world of pervasive externalities --that is, a world where all economic decisions have environmental effects--this analysis demands that all economic decisions be politically managed. The world is only now beginning to recognize the massive mistake entailed in economic central planning; yet, the "market failure" paradigm argues that we embark on an even more ambitious effort of ecological central planning. The disastrous road to serfdom can just as easily be paved with green bricks as with red ones.

Environmental policy today is pursued exactly as planned economies seek to produce wheat. A political agency is assigned the task. It develops detailed plans, issues directives, and the citizens comply. That process will produce some wheat just as environmental regulations produce some

gains. However, neither system enlists the enthusiasm and the creative genius of the citizenry, and neither leads to prosperity. In fact, political management has been able to turn the cornucopia that was the Horn of Africa into a barren, war-torn desert.

That markets "fail" does not mean that governments will "succeed."

Governments, after all, are susceptible to special interest pleadings. A complex political process often provides fertile ground for economic and ideological groups to advance their agendas at the public expense. The U.S. tolerance of high sulfur coal and the massive subsidies for heavily polluting "alternative fuels" are evidence of this problem. Moreover, governments lack any means of acquiring the detailed information dispersed throughout the economy essential to efficiency and technological change.

More significantly, if market forces were the dominant cause of environmental problems, then the highly industrialized, capitalist countries should suffer from greater environmental problems than their centrally managed counterparts. This was once the conventional wisdom. The Soviet Union, it was argued, would have no pollution because the absence of private property, the profit motive, and individual self-interest would eliminate the motives for harming the environment. The opening of the Iron Curtain exploded this myth, as the most terrifying ecological horrors ever conceived were shown to be the Communist reality. The lack of property rights and profit motivations discouraged efficiency, placing a greater stress on natural resources. The result was an environmental disaster.

Do Markets Fail--Or Do We Fail to Allow Markets?

John Kenneth Galbraith, an avowed proponent of statist economic policies, inadvertently suggested a new approach to environmental protection. In an oft-quoted speech he noted that the U.S. was a nation in which the yards and homes were beautiful and in which the streets and parks were filthy. Galbraith then went on to suggest that we effectively nationalize the yards and homes. For those of us who believe in property rights and economic liberty, the obvious lesson is quite the opposite.

Free market environmentalists seek ways of placing these properties in the care of individuals or groups concerned about their well-being. This approach does not, of course, mean that trees must have legal standing, but rather a call for ensuring that behind every tree, stream, lake, air shed, and whale stands one or more owners who are able and willing to protect and nurture that resource.

Consider the plight of the African elephant. On most of the continent, the elephant is managed like the American buffalo once was. It remains a political resource. Elephants are widely viewed as the common heritage of all the peoples of these nations, and are thus protected politically. The "common property" management strategy being used in Kenya and elsewhere in East and Central Africa has been compared and contrasted with the experiences of those nations such as Zimbabwe which have moved decisively in recent years to transfer elephant ownership rights to regional tribal councils. The differences are dramatic. In Kenya, and indeed all of eastern Africa, elephant populations have fallen by over 50 percent in the last decade. In contrast, Zimbabwe's elephant population has been increasing rapidly. As with the beaver in Canada, a program of conservation through use that relies upon uniting the interests of man and the environment succeeds where political management has failed.

The Market and Sustainability

The prophets of sustainability have consistently predicted an end to the world's abundant resources, while the defenders of the free market point to the power of innovation--innovation which is encouraged in the marketplace. Consider the agricultural experience. Since 1950, improved plant and animal breeds, expanded availability and types of agri-chemicals, innovative agricultural techniques, expanded irrigation, and better pharmaceutical products have all combined to spur a massive expansion of world food supplies. That was not expected by those now championing "sustainable development." Lester Brown, in his 1974 Malthusian publication *By Bread Alone*, suggested that crop yield increases would soon cease. Since that date, Asian rice yields have risen

nearly 40 percent, an approximate increase of 2.4 percent per year. This rate is similar to that of wheat and other grains. In the developed world it is food surpluses, not food shortages, that present the greater problem, while political institutions continue to obstruct the distribution of food in much of the Third World.

Man's greater understanding and ability to work with nature have made it possible to achieve a vast improvement in world food supplies, to improve greatly the nutritional levels of a majority of people throughout the world, in spite of rapid population growth. Moreover, this has been achieved while reducing the stress to the environment. To feed the current world population at current nutritional levels using 1950 yields would require plowing under an additional 10 to 11 million square miles, almost tripling the world's agricultural land demands (now at 5.8 million square miles). This would surely come at the expense of land being used for wildlife habitat and other applications.

Moreover, this improvement in agriculture has been matched by improvements in food distribution and storage, again encouraged by natural market processes and the "profit incentive" that so many environmentalists deplore. Packaging has made it possible to reduce food spoilage, reduce transit damage, extend shelf life, and expand distribution regions. Plastic and other post-use wraps along with the ubiquitous Tupperware have further reduced food waste. As would be expected, the United States uses more packaging than Mexico, but the additional packaging results in tremendous reductions in waste. On average, a Mexican family discards 40 percent more waste each day. Packaging often eliminates more waste than it creates.

Despite the fact that capitalism has produced more environment-friendly innovations than any other economic system, the advocates of sustainable development insist that this process must be guided by benevolent government officials. That such efforts, such as the United States' synthetic fuels project of the late 1970s, have resulted in miserable failures is rarely considered. It is remarkable how many of the participants at the U.N. Earth Summit seemed completely oblivious to this historical reality.

In the free market, entrepreneurs compete in developing low-cost, efficient means to solve contemporary problems. The promise of a potential profit, and the freedom to seek after it, always provides the incentive to build a better mousetrap, if you will. Under planned economies, this incentive for innovation can never be as strong, and the capacity to reallocate resources toward more efficient means of production is always constrained.

This confusion is also reflected in the latest environmental fad: waste reduction. With typical ideological fervor, a call for increased efficiency in resource use becomes a call to use less of everything, regardless of the cost. Less, we are told, is more in terms of environmental benefit. But neither recycling nor material or energy use reductions per se are a good thing, even when judged solely on environmental grounds. Recycling paper often results in increased water pollution, increased energy use, and in the United States, actually discourages the planting of new trees. Mandating increased fuel efficiency for automobiles reduces their size and weight, which in turn reduces their crashworthiness and increases highway fatalities. Environmental policies must be judged on their results, not just their motivations.

Overcoming Scarcity

Environmentalists tend to focus on ends rather than process. This is surprising given their adherence to ecological teaching. Their obsession with the technologies and material usage patterns of today reflects a failure in understanding how the world works. The resources that people need are not chemicals, wood fiber, copper, or the other natural resources of concern to the sustainable development school. We demand housing, transportation, and communication services. How that demand is met is a derivative result based on competitive forces--forces which respond by suggesting new ways of meeting old needs as well as improving the ability to meet such needs in the older ways.

Consider, for example, the fears expressed in the early post-war era that copper would soon be in short supply. Copper was the lifeblood of the world's communication system, essential to link

together humanity throughout the world. Extrapolations suggested problems and copper prices escalated accordingly. The result? New sources of copper in Africa, South America, and even the U.S. and Canada were found. That concern, however, also prompted others to review new technologies, an effort that produced today's rapidly expanding fiber optics links.

Such changes would be viewed as miraculous if not now commonplace in the industrialized, and predominantly capitalistic, nations of the world. Data assembled by Lynn Scarlett of the Reason Foundation noted that a system requiring, say, 1,000 tons of copper can be replaced by as little as 25 kilograms of silicon, the basic component of sand. Moreover, the fiber optics system has the ability to carry over 1,000 times the information of the older copper wire. Such rapid increases in communication technology are also providing for the displacement of oil as electronic communication reduces the need to travel and commute. The rising fad of telecommuting was not dreamed up by some utopian environmental planner, but was rather a natural outgrowth of market processes.

It is essential to understand that physical resources are, in and of themselves, largely irrelevant. It is the interaction of man and science that creates resources: Sand and knowledge become fiber optics. Humanity and its institutions determine whether we eat or die. The increase of political control of physical resources and new technologies only increases the likelihood of famine.

Intergenerational Equity

Capitalism is ultimately attacked on grounds of unsustainability for its purported failure to safeguard the needs of future generations. Without political intervention, it is argued, capitalists would leave a barren globe for their children. Thus, it is concluded, intergenerational equity demands that politics intervene. But are these criticisms valid?

Capitalists care about the future because they care about today's bottom line. Market economies have created major institutions--bond and stock markets, for example--which respond to changes in operating policies that will affect future values. A firm that misuses its capital or lowers its quality standards, a pet store that mistreats its stock, a mine that reduces maintenance, a farmer that permits erosion--all will find the value of their capital assets falling. Highly specialized researchers expend vast efforts in ferreting out changes in management practices that might affect future values; investment houses pay future analysts very well indeed to examine such questions.

Markets, of course, are not able to foresee all eventualities, nor do they consider consequences hundreds of years into the future. Yet, consider the time horizon of politicians. In the U.S., at least, they are concerned with only one thing: getting re-elected, a process that provides them at best a two-to-six-year time horizon. Politically managed infrastructure is routinely undermaintained; funds for new roads are more attractive than the smaller sums used to repair potholes; national forests are more poorly maintained than private forests; erosion is more serious on politically controlled lands than on those maintained by private corporations. If the free market is shortsighted in its view of the future, then the political process is even more so. It is therefore the free market which best ensures that there will be enough for the future.

Warring Paradigms

The alternative perspectives on environmental policy--free markets and central planning--differ dramatically. One relies upon individual ingenuity and economic liberty to harness the progressive nature of market forces. The other rests upon political manipulation and government coercion. In point of fact, these approaches are antithetical. There is little hope of developing a "third way." Yet, there has been little debate on which approach offers the greatest promise in enhancing and protecting environmental concerns. The political approach has been adopted on a wide scale throughout the world, with more failure than success, while efforts to utilize the free market approach have been few and far between.

Nevertheless, there are numerous cases where private property rights have been used to complement and supplement political environmental strategies. One excellent example is a case in

England in the 1950s where a fishing club, the Pride of Derby, was able to sue upstream polluters for trespassing against private property. Even the pollution issuing from an upstream municipality was addressed. This ability to go against politically preferred polluters rarely exists where environmental resources are politically managed.

At the heart of the division between statist and free market environmentalists is a difference in moral vision. Free market environmentalists envision a world in which man and the environment live in harmony, each benefiting from interaction with the other. The other view, which dominates the environmental establishment, believes in a form of ecological apartheid whereby man and nature must be separated, thus protecting the environment from human influence. From this view rises the impetus to establish wilderness lands where no humans may tread and a quasi-religious zeal to end all human impact on nature.

Thus, the establishment environmentalists view pollution--human waste--as an evil that must be eliminated. That waste is an inevitable by-product of human existence is of secondary concern. To the environmentalist that endorses this ideology, nothing short of civilization's demise will suffice to protect the earth.

The view that free market environmentalists endorse is somewhat different. Not all waste is pollution, but only that waste which is transferred involuntarily. Thus it is polluting to dispose of garbage on a neighbor's lawn, but not to store it on one's own property. The voluntary transfer of waste, perhaps from an industrialist to the operator of a landfill or recycling facility, is merely another market transaction.

Conclusion

The United Nations Earth Summit considered an extremely important issue: What steps should be taken to ensure that economic and ecological values are harmonized? Unfortunately, the Earth Summit failed to develop such a program, opting instead to further the flawed arguments for ecological central planning.

The world faces a fateful choice as to how to proceed: by expanding the scope of individual action via a system of expanded private property rights and the legal defenses associated with such rights or by expanding the power of the state to protect such values directly. In making that choice, we should learn from history. Much of the world is only now emerging from decades of efforts to advance economic welfare via centralized political means, to improve the welfare of mankind by restricting economic freedom, by expanding the power of the state, to test out the theory that market forces are inadequate to protect the welfare of society. That experiment has been a clear failure on economic, civil liberties, and even ecological grounds. Economic central planning was a utopian dream; it became a real world nightmare.

Today, the international environmental establishment seems eager to repeat this experiment in the ecological sphere, increasing the power of the state, restricting individual freedom, certain that market forces cannot adequately protect the ecology. Yet, as I've quickly sketched out here, this argument is faulty. Wherever resources have been privately protected, they have done better than their politically managed counterparts--whether we are speaking of elephants in Zimbabwe, salmon streams in England, or beaver in Canada. Where such rights have been absent or suppressed, the results have been less fortunate. Extending property rights to the full array of resources now left undefended, now left as orphans in a world of protected properties, is a daunting challenge. Creative legal arrangements and new technologies will be necessary to protect the oceans and air sheds of the world, but those tasks can be resolved if we apply ourselves. The obstacles to ecological central planning are insurmountable. The need for centralized information and a comprehensive system of controls in order to coerce the population of the world to act in highly restricted ways as well as that for omniscient decision-makers to choose among technologies can never be met.

Ecological central planning cannot protect the environment, but it can destroy our civil and economic liberties. There is too much at stake to allow the world to embark upon this course. The environment can be protected, and the world's peoples can continue to reach new heights of

prosperity, but it is essential to realize that political management is not the proper approach. Rather, the leaders of the world should follow the path of the emerging nations of Eastern Europe and embrace political and economic freedom. In the final analysis, the free market is the only system of truly sustainable development.

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