Free-market environmentalism emphasizes markets as a solution to environmental problems. Proponents argue that free markets can be more successful than government—and have been more successful historically—in solving many environmental problems.

This interest in free-market environmentalism is somewhat ironic because environmental problems have often been seen as a form of market failure (see PUBLIC GOODS and EXTERNALITIES). In the traditional view, many environmental problems are caused by decision makers who reduce their costs by polluting those who are downwind or downstream; other environmental problems are caused by private decision makers' inability to produce "public goods" (such as preservation of wild species) because no one has to pay to get the benefits of this preservation. While these problems can be quite real, growing evidence indicates that governments often fail to control pollution or to provide public goods at reasonable cost. Furthermore, the private sector is often more responsive than government to environmental demands. This evidence, which is supported by much economic theory, has led to a reconsideration of the traditional view.

The failures of centralized government control in Eastern Europe and the Soviet Union awakened further interest in free-market environmentalism in the early 1990s. As *glasnost* lifted the veil of secrecy, press reports identified large areas where brown haze hung in the air, people's eyes routinely burned from chemical fumes, and drivers had to use headlights in the middle of the day. In 1990 the *Wall Street Journal* quoted a claim by Hungarian doctors that 10 percent of the deaths in Hungary might be directly related to pollution. The *New York Times* reported that parts of the town of Merseburg, East Germany, were "permanently covered by a white chemical dust, and a sour smell fills people's nostrils."

For markets to work in the environmental field, as in any other, rights to each important resource must be clearly defined, easily defended against invasion, and divestible (transferable) by owners on terms agreeable to buyer and seller. Well-functioning markets, in short, require "3-D" PROPERTY RIGHTS. When the first two are present—clear definition and easy DEFENSE of one's rights—no one is forced to accept pollution beyond the standard acceptable to the community. Local standards differ because people with similar preferences and those seeking similar opportunities often cluster together. Parts of Montana, for example, where the key economic activity is ranching, are "range country." In those areas, anyone who does not want the neighbors' cattle disturbing his or her garden has the duty to fence the garden to keep the cattle out. On the really large ranches of range country, that solution is far cheaper than fencing all the range on the ranch. But much of the state is not range country. There, the property right standards are different: It is the duty of the cattle owner to keep livestock fenced in. People in the two areas have different priorities based on goals that differ between the communities. Similarly, the "acceptable noise" standard in a vibrant neighborhood of the inner city with many young people might differ from that of a dignified neighborhood populated mainly by well-to-do retirees. "Noise pollution" in one community might be acceptable in another, because a standard that limits one limits all in the community. Those who sometimes enjoy loud music at home may be willing to accept some of it from others. Each individual has a right against invasion of himself and his property, and the courts will defend that right, but the standard that defines an unacceptable invasion can vary from one community to another. And finally, when the third characteristic of property rights—divestibility—is present, each owner has an

incentive to be a good steward: preservation of the owner's wealth (the value of his or her property) depends on good stewardship.

Environmental problems stem from the absence or incompleteness of these characteristics of property rights. When rights to resources are defined and easily defended against invasion, all individuals or CORPORATIONS, whether potential polluters or potential victims, have an incentive to avoid pollution problems. When air or water pollution damages a privately owned asset, the owner whose wealth is threatened will gain by seeing—in court if necessary—that the threat is abated. In England and Scotland, for example, unlike in the United States, the right to fish for sport and commerce is a privately owned, transferable right. This means that owners of fishing rights can obtain damages and injunctions against polluters of streams. Owners of these rights vigorously defend them, even though the owners are often small anglers' clubs with modest means. Fishers clearly gain, but there is a cost to them also. In 2005, for example, INTERNET advertisements offered fishing in the chalk streams of the River Anton, Hampshire, at 50 pounds British per day, or about $90 U.S. On the River Avon in Wiltshire, the price per day was 150 pounds, or $270. Valuable fishing rights encouraged their owners to form an association prepared to go to court when polluters violate their fishing rights. Such suits were successful well before Earth Day in 1970, and before pollution control became part of public policy. Once rights against pollution are established by precedent, as these were many years ago, going to court is seldom necessary. Potential plaintiffs who recognize they are likely to lose do not want to add court costs to their losses.

Thus, LIABILITY for pollution is a powerful motivator when a factory or other potentially polluting asset is privately owned. The case of the Love Canal, a notorious waste dump, illustrates this point. As long as Hooker Chemical Company owned the Love Canal waste site, it was designed, maintained, and operated (in the late 1940s and 1950s) in a way that met even the Environmental Protection Agency standards of 1980. The corporation wanted to avoid any damaging leaks, for which it would have to pay.

Only when the waste site was taken over by local government—under threat of eminent domain, for the cost of one dollar, and in spite of warnings by Hooker about the chemicals—was the site mistreated in ways that led to chemical leakage. The government decision makers lacked personal or corporate liability for their decisions. They built a school on part of the site, removed part of the protective clay cap to use as fill dirt for another school site, and sold off the remaining part of the Love Canal site to a developer without warning him of the dangers as Hooker had warned them. The local government also punched holes in the impermeable clay walls to build water lines and a highway. This allowed the toxic wastes to escape when rainwater, no longer kept out by the partially removed clay cap, washed them through the gaps created in the walls.

The school district owning the land had a laudable but narrow goal: it wanted to provide EDUCATION cheaply for district children. Government decision makers are seldom held accountable for broader social goals in the way that private owners are by liability rules and potential PROFITS. Of course, anyone, including private parties, can make mistakes, but the decision maker whose private wealth is on the line tends to be more circumspect. The

liability that holds private decision makers accountable is largely missing in the public sector.

Nor does the government sector have the long-range view that property rights provide, which leads to protection of resources for the future. As long as the third *D,* divestibility, is present, property rights provide long-term incentives for maximizing the value of property. If I mine my land and impair its future PRODUCTIVITY or its groundwater, the reduction in the land's value reduces my current wealth. That is because land's current worth equals the PRESENT VALUE of all future services. Fewer services or greater costs in the future mean lower value now. In fact, on the day an appraiser or potential buyer can first see that there will be problems in the future, my wealth declines. The reverse also is true: any new way to produce more value—preserving scenic value as I log my land, for example, to attract paying recreationists—is capitalized into the asset's present value.

Because the owner's wealth depends on good stewardship, even a shortsighted owner has the incentive to act as if he or she cares about the future usefulness of the resource. This is true even if an asset is owned by a corporation. Corporate officers may be concerned mainly about the short term, but as financial economists such as Harvard Business School's Michael C. Jensen have noted, even they have to care about the future. If current actions are known to cause future problems, or if a current INVESTMENT promises future benefits, the stock price rises or falls to reflect the change. Corporate officers are informed by (and are judged by) these stock price changes.

This ability and incentive to engage in farsighted behavior is lacking in the political sector. Consider the example of Seattle's Ravenna Park. At the turn of the twentieth century it was a privately owned park that contained magnificent Douglas firs. A husband and wife, Mr. and Mrs. W. W. Beck, had developed it into a family recreation area that, in good weather, brought in thousands of people a day. Concern that a future owner might not take proper care of it, however, caused the local government to "preserve" this beautiful place. The owners did not want to part with it, but the city initiated condemnation proceedings and bought the park.

But since they had no personal property or income at stake, local officials allowed the park to deteriorate. In fact, the tall trees began to disappear soon after the city bought it in 1911. A group of concerned citizens brought the theft of the trees to officials' attention, but the logging continued. Gradually, the park became unattractive. By 1972 it was an ugly, dangerous hangout for drug users. The Becks, operating privately at no cost to taxpayers, but supported instead by user fees, had done a far better job of managing the park they had created.

Could parks, even national parks like Grand Canyon or Yellowstone, be run privately, by individuals, clubs, or firms, in the way the Becks ran Ravenna Park? Would park users suffer if they had to support the parks they used through fees rather than taxes? Donald Leal and Holly Fretwell studied national parks and compared certain of them with state parks nearby. The latter had similar characteristics but, unlike the national parks, were supported in large part by user fees. The comparisons were interesting. Leal and Fretwell noted, in 1997, that sixteen state park systems earned at least half their operating funds from fees.

The push for greater revenue led park managers to provide better services, and more people were served. For example, in contrast to nearby national parks with similar natural features, Texas state parks offered trail runs, fun runs, "owl prowls," alligator watching, wildlife safaris, and even a longhorn cattle drive. Costs in the state parks were also lower. Park users seem happy to pay more at the parks when they enjoy more and better services.

Private individuals and groups have preserved wildlife habitats and scenic lands in thousands of places in the United States. The 2003 Land Trust Alliance Census Tables list 1,537 local, state, and regional land trusts serving this purpose.1 Many other state and local groups have similar projects as a sideline, and national groups such as The Nature Conservancy and the Audubon Society have hundreds more. None of these is owned by the government. Using the market, such groups do not have to convince the majority that their project is desirable, nor do they have to fight the majority in choosing how to manage the site. The result, as the federal government's Council on ENVIRONMENTAL QUALITY has reported, is an enormous and healthy diversity of approaches.

Nevertheless, it is important to note that the government is still involved, even in the case of privately donated and privately owned trust lands. Most of these private conservation choices benefit from tax advantages, as conservers gain charitable deductions from taxable income. Tax law, therefore, influences what sorts of donations qualify; it also increases the total amounts by rewarding all qualifying choices by tax reductions. Who gains from the increased conservation? Most often it is first and foremost the nearby landowners. When donors of trust lands retain adjacent property, they benefit from the existence of the trust lands to a degree greater than other citizens more distant. Open space usually raises the value of nearby lands.

Further, when many polluters and those who receive the pollution are involved, how can property rights force accountability? The nearest receivers may be hurt the most, and may be able to sue polluters—but not always. Consider an extreme case: the potential GLOBAL WARMING impact of carbon dioxide produced by the burning of wood or fossil fuels. If climate change results, the effects are worldwide. Nearly everyone uses the ENERGY from such fuels, and if the threat of global warming from a buildup of carbon dioxide turns out to be as serious as some claim, then those harmed by global warming will be hard-pressed to assert their property rights against all the energy producers or users of the world. The same is true for those exposed to pollutants produced by autos and industries in the Los Angeles air basin. Private, enforceable, and tradable property rights can work wonders, but they are not a cure-all.

Still, even the lack of property rights today does not mean that a useful property rights solution is forever impossible. Property rights tend to evolve as technology, preferences, and prices provide added incentives and new technical options. Early in American history, property rights in cattle seemed impossible to establish and enforce on the Great Plains. But the growing value of such rights led to the use of mounted cowboys to protect herds and, eventually, barbed wire to fence the range. As economists Terry Anderson and Peter J. Hill have shown, the plains lost their status as commons and were privatized. Advances in technology may yet allow the establishment of enforceable rights to schools of whales in the oceans, migratory birds in the air, and—who knows?—even the presence of an

atmosphere that clearly does not promote damaging climate change. Such is the hope of free-market environmentalism.

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## About the Author

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## Footnotes

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