

## Free Market Environmentalism: The Answer to Government Regulation

By Brandon Pizzola

*Summary: “Free Market Environmentalism was once considered an oxymoron. But during the 1990s the concept was seriously and successfully applied to practical environmental problems. As a result, some green activists now recognize that innovative market-based strategies can solve problems from conservation to pollution. Supporters of free market environmentalism have organized themselves into a movement to offer policy answers that more government programs and regulations can’t adequately address.” -The Property and Environmental Research Center*

What do Theodore Roosevelt, Franklin D. Roosevelt, Richard Nixon, and Jimmy Carter have in common? Pundits at one time or another have claimed that each was an “environmental president.” Theodore Roosevelt used the bully pulpit to promote national parks and forests, and Franklin Roosevelt set up the Soil Conservation Service and the Federal Aid in Wildlife Restoration Act. Richard Nixon created the Environmental Protection Agency and signed into law the National Environmental Policy Act, the Clean Air Act, the Pesticide Control Act and many other major pieces of regulatory legislation; and Jimmy Carter created the Department of Energy and supported big increases in the Corporate Average Fuel Economy (CAFE) standards for cars and trucks. Carter also wanted us to lower our thermostats and wear sweaters to save energy.



**Terry Anderson, executive director of the Property & Environment Research Center (PERC), shown last year at Northwestern University’s Advanced Law & Economics Institute on Environmental Economics.**

Each president implemented policies that were supposed to protect or improve the land, the air and water, and plant and animal species. Each said he was in favor of saving Old Faithful, ancient Indian cliff dwellings and the bald eagle, and no one wanted dirty air, polluted streams, and extinct species.

However, presidents of both parties looked to government controls and regulations to conserve the natural environment. And

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activists for what was once a “conservation” movement adopted an ideology—“environmentalism” that relied on political activism to address questions concerning the land, air, and water. In the 1970s and 1980s liberal lobby organizations were created to identify problems defined by the new ideology, to set up study groups and task forces confirming the existence of a “crisis” requiring immediate action, and to generate stories on the crises for the mainstream media to cover. All the major environmental groups developed the capacity to launch public relations campaigns, to raise money to expand the circle of concern, and to bombard members of Congress and federal agency officials with alarmist petitions, telling them it was the government’s responsibility to solve the problem before it became too late.

The goals of the activists and the tactics they developed have radically changed the old conservation movement. The transformation is best summarized by Dr. Patrick Moore, a former president of Greenpeace, who broke with it in 1986. When asked why he left Greenpeace, Moore’s reasons were neither personal nor did they reflect a dif-

ference of opinion about the organization or a specific environmental dispute. Rather, he commented on the overall transformation of the movement: “Beginning in the mid-1980s, Greenpeace, and much of the environmental movement, made a sharp turn to the political left and began adopting extreme agendas that abandoned science and logic in favor of emotion and sensationalism.”

The green activists and lobbyists who influence the mainstream media say Moore is bitter and they denounce him as a corporate sell-out. They portray their differences as a struggle between the pure of heart and the greedy. But this can’t last. As last month’s *Foundation Watch* made clear, environmentalism has become a “green money machine” that’s been taken over by investors, financiers and corporations seeking special favors from government. Nowadays environmentalists listen when Goldman Sachs speaks.

## Free Market Environmentalism

The need for a smarter approach to environmental issues has become more and more apparent. Enter, stage right, the movement for free market environmentalism. In the 1980s, as the environmental movement fell increasingly under the control of political advocates of government management and regulatory controls, a group of economists took another look at the environmental question and developed a different point of view.

Their perspective began with a simple question: “If markets can produce bread and cars, why can’t they produce environmental quality?” One of the first groups to begin to answer this question was **PERC**, the acronym for what was then called the **Political Economy Research Center**, which as established in Bozeman, Montana in 1982. Its goal was to pursue environmental quality through the use of markets and property rights. PERC has now more appropriately been renamed the **Property & Environment Research Center**. Says PERC’s executive director Terry Anderson, “I wouldn’t live in Montana

if I didn’t care about the environment.”

PERC was set up by economists at Montana State University (MSU). Dr. John Baden, its first director, was director of MSU’s center for political economy and natural resources. Baden would go on to co-found the environmental management MBA program at the University of Washington and to establish the Foundation for Research on Economics and the Environment (FREE), also located in Bozeman. PERC’s mission is to combat misconceptions about how markets and property are related to the conservation of the natural environment. Through research, policy analysis and public education PERC argues that the environment can be protected—and made profitable—through clearly defined property rights and a market economy. PERC points out that property owners, not bureaucrats or political activists, have the greatest stake in preserving the environment and can be its best advocates.

The initial response of environmental activists was ridicule. After all, aren’t free markets the cause of environmental problems? Isn’t Big Business only interested in profits? Dispelling the myth that markets can’t provide a quality environment has been the greatest challenge facing groups that support free market environmentalism. For three decades, groups like PERC, FREE, the Reason Foundation, the Competitive Enterprise Institute and other policy research and advocacy organizations have focused on making the case for protecting the environment. Through books and articles, op-eds and congressional testimony, website blogs and podcasts, these groups are explaining that the environment can be protected by ownership rights and the capacity of markets to set prices and promote the exchange of goods.

## A Fish Story

By documenting specific success stories, advocates of free market environmentalism demonstrate how the creation of markets can

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address environmental problems. Consider, for instance, the question of fishing.

Fisheries are typically cited as a classic case of the “tragedy of the commons.” This is the tendency of individuals, acting independently and in their own self-interest, to deplete a resource that is held in common. For instance, anyone fishing for a living has a financial incentive to catch as many fish as possible in bays, lakes and rivers where there are no ownership rights. But in the long run, a shared resource may be destroyed even though it is clearly not in an individual’s long-term best interest. The solution traditionally favored by environmentalists is command-and-control government regulation. Government prohibits “over-fishing” by scaling back the legal fishing season or the number of hours that individuals are permitted to fish.

Market-oriented policy analysts have pointed out what happened when government attempted to regulate halibut fishing off the coast of Alaska. For the sake of environmental protection, regulators reduced the season for commercial ocean fishing. But doing so gave fishermen the incentive to buy ever-bigger boats and take added risks to catch as many fish as quickly as possible within the government’s allotted time-frame. When regulators confined the catch of Pacific halibut in a specified area to a prescribed 48-hour period—called a “fishing derby” by those who participated in it—tempers flared as fishing boats dangerously massed together in bad weather conditions and fish rotted on deck in a mad scramble to catch as many as possible.

A more market-based alternative has changed the incentive structure for halibut fishing. It was accomplished by what is called a catch-sharing management system.

Fishermen, individually or in cooperatives, are granted a percentage share of the total allowable catch. They can also be granted exclusive access to particular

fishing zones. As long as fishermen do not exceed their share, they have greater flexibility to fish when weather and market conditions are best. Their shares grow in value as the overall fishery improves, providing them a greater financial stake in sound resource management.

The results have been impressive. Commercial fishers no longer have an incentive to rely on impractically large boats, engage in



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fishing races, resort to dangerous risk-taking in bad weather conditions and other hasty-waste practices. By using a catch sharing system, PERC reports “[increased] fishing incomes, reduced fleet excesses, higher product quality, safer fishing, and reduced over-fishing and less by-catch.” In an interview, a halibut fisher said, “Now I feel I have a stake in this and a lot of my friends feel the same way.” In economic terms, commercial fishing remains profitable and fisheries are sustained by the grant of property rights to fishing.

Catch-share systems have been put in place in Australia, Canada, Greenland, Iceland, the Netherlands, New Zealand, as well as in the United States. Unfortunately, in some of these programs government regulators continue to impose quotas on fishing. Still, a catch share system demonstrates how it is possible to align the interests of fishermen with the interest of conserving the stock of fish. Property rights to fish are a feedback mechanism giving fishermen a long term investment in sustaining the shared resource of the fishery. Government has no need to regulate “over-fishing” beyond enforcing the property rights of fisheries that are made both profitable and sustainable.

### Forest Management

Free Market Environmentalism will succeed by showing policymakers, the media and the public that market systems work better than command-and-control systems. From endangered species to water pollution, markets have demonstrated how they can efficiently promote conservation and the use of natural resources. For example, a July 2009 PERC case study suggests reasons why private ownership leads to better forestland management than government ownership. Research fellow Alison Berry compared two forests bordering each other in Montana. One was maintained by the U.S. Forest Service while the other was owned and maintained by the Confederated Salish and Kootenai Tribes. The forests are nearly identical, and so was the amount of the forest used for timber production:

A comparable proportion of the total land area on each forest—64 and 59 percent—is managed for timber production (table 1). The forests also have similar volumes of standing timber per acre, potential productivity, and annual average net growth. Operationally, foresters carry out the same duties on each forest when it comes to managing timber.

But consider the difference between the

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government-run and privately-run forest maintenance. The Indian tribes say their mission is to “[strengthen] tribal sovereignty and self sufficiency through good forest management, and providing perpetual economic benefits of labor, profit, and products to local communities.” The mission of the U.S. Forest Service is to “to sustain the health, diversity, and productivity of the Nation’s forests and grasslands to meet the needs of present and future generations.” The tribes seek to profit by their management of the forest; the Forest Service does not. The tribes have an economic incentive to maintain the forest as a long term investment in their own well-being. The mandate of the Forest Service is only to hold onto the forest.

The difference in the economic impact and environmental quality of the two forests is astonishing. The Forest Service actually produced 57% more timber than the land owned by the tribes, yet the government’s harvest of 203,106 thousand board feet generated only \$26.8 million in revenues, while the tribes timber harvest of 129,523 thousand board feet generated \$31.6 million in revenues. The forest manager for the tribes said, “Our forest is a vital part of everyday tribal life. Timber production, non-timber forest products, and grazing provide jobs and income for tribal members and enhance the economic life of surrounding communities.” Put another way, functioning property rights create the financial incentives to pursue sustainable forestry.

## Building a Movement

Since PERC’s founding in the early 1980s, a movement has grown up to encourage thinking about how markets and property rights can promote a healthy environment. Free market environmentalism addresses the full range of environmental issues. Just as importantly, it has developed many innovative programs to inform and educate the public and policymakers.

For instance, **FREE**, the **Foundation for**

**Research on Economics & the Environment**, founded by Dr. John Baden, has since 1992 sponsored seminars for federal judges and law professors that explain how market ideas can more effectively enforce laws on property rights and the environment. On its website **FREE** says one-quarter of all chief judges have participated in its conferences, as have one-third of U.S. Court of Claims judges, and one-half of all judges on the D.C. Circuit Court and Federal Circuit Courts of Appeal. **The Law and Economics Center at the George Mason University School of Law** also offers courses for federal judges.

A far-left public interest law firm, the Center for Constitutional Rights (profiled in *Organization Trends*, September 2006), attacked both **FREE** and the Law and Economics Center year after year and tried unsuccessfully to have laws passed banning federal judges from attending private legal seminars and conference programs. Senators Russ Feingold (D-Wisc.) and John Kerry (D-Mass.) did CCR’s bidding, introducing bills banning what were called “junkets for judges.” The bills, surely unconstitutional infringements on first amendment freedoms, were short-circuited when the U.S. Judicial Conference issued common sense financial disclosure and transparency rules for judges who attend private conferences.

Baden is founder of another nonprofit, Gallatin Writers, which works with fiction and nonfiction authors who write about the American West. Gallatin’s aim is to give storytellers a better understanding of the culture, economy and environment of the West.

The Washington, D.C.-based **Competitive Enterprise Institute (CEI)** also promotes free market environmental solutions, focusing on energy, climate change, biotechnology and food safety issues. It combines policy analysis with attention-getting public relations programs and probing legal actions. CEI also sponsors the **Cooler Heads Coalition**, which brings together, in-person

and on-line, representatives of free market organizations like the American Enterprise Institute, Americans for Prosperity, the Evergreen Freedom Foundation, and the Heritage Foundation to discuss strategies to combat global warming alarmism. The Coalition’s website [www.globalwarming.org](http://www.globalwarming.org), lists experts, events and publications that refute environmental extremist views of climate change.

CEI president Fred Smith has observed that most people are unwilling to be “educated” about public policy issues and economic principles. What’s needed instead is a “communication” strategy that shows people how policy issues and economic ideas relate to their own values and experiences. So, for instance, CEI makes fun of Al Gore and shows his hypocrisy as he flies thousands of miles across the country to denounce carbon emissions. It also files lawsuits that show how increasing CAFE auto fuel standards will cause automakers to reduce the size of the cars they sell, which will lead to increased deaths in auto accidents.

Many other individuals and groups are extending the ideas of free market environmentalism. They range from the good stewardship of private lands (R.J. Smith) and the folly of urban growth regulation (Randal O’Toole) to issues of transportation (the **Reason Foundation**) and climate change (the **Heartland Institute**).

It has been said that economics is the science of keeping people from killing each other with their good intentions. A market-based environmentalism enables individuals to make choices by showing that there are trade-offs in every choice—cost versus benefit, risk versus risk.

## Looking at Cap and Trade

What happens when policies are created that do not rely on true markets, property rights, and freedom of choice? On June 26 the House of Representatives passed

the American Clean Energy and Security Act of 2009 (ACES) by a vote of 219-212. Also known as the Waxman-Markey bill, or more commonly as “cap-and-trade,” it would regulate energy producers and users through a complex system of controls that would have far-reaching consequences on the American economy.

The arguments against cap and trade have been widely-discussed (for instance, see “Al Gore’s Carbon Empire,” in the October 2008 *Foundation Watch*). However, cap-and-trade is based on a simple but important principle that is fundamental to every government regulation: cap-and-trade gives *concentrated benefits* to a select group of politically well-connected individuals and organizations while it *disperses the costs* to larger and less influential groups (fossil fuel producers, taxpayers and energy consumers).

During the 2008 presidential campaign both Senators Barack Obama and John McCain endorsed a cap-and-trade system, claiming that it would simultaneously benefit the environment while raising revenue through the government sale of greenhouse gas emission permits. But President Obama belatedly has begun to recognize that unlike a true market the cap-and-trade system cannot regulate itself. In March he told the Business Roundtable:

Now, the experience of a cap and trade system thus far is that if you’re giving away carbon permits for free, then basically you’re not really pricing the thing and it doesn’t work, or people can game the system in so many ways that it’s not creating the incentive structures that we’re looking for. The flip side is, you’re right, if it’s so onerous that people can’t meet it, then it defeats the purpose — and politically we can’t get it done anyway. So we’re going to have to find a structure that arrives at that right balance.

Obama seems to understand that “people can game the system” when government creates an artificial scarcity by imposing a cap on carbon emissions and then fixes an initial price for the emission credits it allows to be traded. The game is to fix the price for controlling emissions, and the players are the lobbyists who represent the industries producing and consuming energy. Contrary to Obama’s wish, there is no “right balance.” Put another way, firms will game the system and seek to make profits by manipulating the regulations rather than responding to consumer demands.

Obama budget director Peter Orszag once said if the government did not auction off the emissions permits, “it would represent the largest corporate welfare program that has ever been enacted in the history of the United States.” But to enact a cap and trade system into law Henry Waxman’s House Energy and Commerce Committee passed a bill that allows 85% of the carbon emission permits to be given away for free. This has created distress among left-wing organizations. Tyson Slocum of Ralph Nader’s Public Citizen called the bill a “huge disappointment” and “boon to energy industries.”

The drafting of the cap-and-trade bill is a case study in what economists call “public choice” theory: the idea that politics concentrates the benefits and disperses the costs of legislation. Rather than serve an illusory “public interest,” government regulation serves the interests of the few and disperses the costs to the many. This is the norm, not an exception, and it affects any proposed government solution to environmental problems.

Cap-and-trade is not free-market environmentalism. Government sets the price for the emissions permit and then limits its fluctuation by the number of permits it issues and the price it charges for them. As Robert Murphy of the Institute for Energy Research puts it, “[If] the prices of oil, coal,

and other fossil fuels explode because of a cap and trade program, this won’t reflect genuine scarcity. Consumers will be forced to restrict their use not because there is less supply available, but because of a number dreamed up by Washington bureaucrats. This is no more a ‘market price’ than if the government decided to sell people permits giving them permission to sneeze.”

When left-wing organizations look at watered-down legislation they imagine that politicians are sellouts who have been bought by corporate interests. But advocates of a free market understand that government regulation is the wrong way to protect the environment. The right to own and control private property is the best way to safeguard land, air, water and animal species.

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Many thanks.

Terrence Scanlon  
President

# Briefly Noted

In a federal lawsuit the activist group **ACORN** claims that it has a constitutional right to defraud the people of the United States. Actually, the lawsuit, filed with the assistance of the **Center for Constitutional Rights** (which was profiled in the September 2006 *Organization Trends*) doesn't use the word *fraud*, but that's what it amounts to because ACORN argues that it has a right to the taxpayer dollars that Congress is depriving it of. ACORN claims the temporary cutoff of federal funding approved by Congress violates the Constitution's prohibition on bills of attainder, along with ACORN's free speech and due process rights.

ACORN asked former Massachusetts Attorney General **Scott Harshbarger**, who used to head **Common Cause**, to conduct an "independent" review of ACORN's responsibility for encouraging prostitution and tax evasion, actions revealed in videos shot by undercover investigative reporters. The verdict? In a thin 47-page report Harshbarger cleared ACORN, finding it guilty only of poor management practices. "While some of the advice and counsel given by ACORN employees and volunteers was clearly inappropriate and unprofessional, we did not find a pattern of intentional, illegal conduct by ACORN staff," he wrote. ACORN chief organizer **Bertha Lewis**, who helped cover up an earlier million-dollar embezzlement, gloated that the report exonerated her group. She said, "ACORN's leadership is pleased that this evaluation shows that even the low level employees did not engage in any illegal activity or seek to encourage it."

The U.S. Department of Justice's inspector general says ACORN and its affiliates took in \$200,000 in Justice Department grants from 2002 through 2009. No DOJ grants went directly to ACORN, but some grants were provided either to ACORN affiliates or to other grants that then sub-contracted projects to ACORN.

**American Federation of Teachers** President **Randi Weingarten** told a **Center for American Progress** forum that the labor movement and public schools should promote "social and economic justice." BigGovernment.com's **Kyle Olson** quotes Weingarten: "We have to do more than simply instruct children seven hours a day," she said, adding "community schools should be the hub of the community." Terrorist-turned-education professor **Bill Ayers** agrees.

Global warming alarmist **Al Gore** of the **Alliance for Climate Protection** is in full denial mode over Climategate, the scandal in which scientists' emails at England's University of East Anglia showed them plotting to deceive the public about global warming. Gore told Slate.com that the emails were "taken wildly out of context" and that the uproar about them is "sound and fury signifying nothing." He also lied, saying that emails released were 10 years old. In fact, many of them were date-stamped 2009.

Liberal activists have visited the Obama White House in droves, according to documents made public. Visitors include: **Joan E. Blades**, co-founder of **MoveOn.org**; Left-wing PR mogul **David Fenton**; ACORN publicist **Scott Levenson**; **Markos Moulitsas**, founder of the left-wing hate site **DailyKos**; and **Service Employees International Union** (SEIU) president **Andrew Stern** (more than 20 times in 2009).

New Mexico-based environmentalist **James Gollin** has joined the board of **George Soros's Democracy Alliance**, a billionaires' club that wants to turn America into socialist Europe. Gollin is a director of the **Angelica Foundation** and president of the board of the radical **Rainforest Action Network**. He's a former investment broker with **Morgan Stanley**.