

## FREE-MARKET ENVIRONMENTALISM: A BRIEF HISTORY AND OVERVIEW\*

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September 2001

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There has been a growing public and media interest in the history and the thinking of free-market environmentalism.<sup>1</sup> My purpose in this paper will be to provide a brief introductory sketch, recognizing that many people have little familiarity with free-market environmentalism. First, the paper addresses the key ideas that inspired the free-market environmental movement.<sup>2</sup> Then, it identifies some of the key think tanks and other institutions that have played central roles in the development of the ideas of free-market environmentalism. For the purposes of illustration, my focus will be on the application of free-market ideas to the natural resources and the public lands of the West.

The most important intellectual inspirations for free-market environmentalism can be found in the Chicago school of economics and its various offshoots, including the public choice school of economics and the law and economics movement. Chicago school thinking, as applied to issues of the environment, inspired much of the concrete policy agenda of free-market environmentalism.<sup>3</sup>

The economics department of the University of Chicago generally had an extraordinary intellectual and policy influence in the last quarter of the twentieth century. From 1974 to 2000, economists who had either taught or studied at the University of Chicago (and a number of them are still there) won 15 Nobel prizes in economics. The accomplishment is even more notable in that Swedish academics are not known for their free-market tendencies. In my view, the most important Chicago economists in terms of influencing free-market environmentalism have been Friedrich Hayek, Milton Friedman, James Buchanan (who earned a Ph.D. at Chicago in the late 1940s, although his teaching career has been spent elsewhere), and Ronald Coase – all of whom won Nobel prizes.

In the typical case, Chicago school ideas were extremely controversial at first but then won growing acceptance and then finally became mainstream. The past Secretary of the Treasury in the Clinton administration, and now president of Harvard University, Larry Summers, commented of Milton Friedman that “he was the devil figure in my youth. Only with time have I come to have large amounts of grudging respect, and with time, increasingly ungrudging respect.”<sup>4</sup>

Drawing heavily on Chicago thinking, the theorists of free-market environmentalism have offered a critique of the failure of existing government institutions responsible for the environment – and in the West this includes prominently the federal agencies responsible for the management of the public lands. Many of the public land agencies were founded in the progressive era early in the twentieth century. Their institutional cultures reflected progressive methods and thinking directed to the “scientific management” of public resources. It is in part the failure of progressive ideas of scientific management that set the stage for new environmental policies such as are now being proposed by free-market environmentalism.

A third key element in the thinking of free-market environmentalism involves a critique of the value system of the contemporary environmental movement. Environmentalists have often been critical if not hostile to efforts to rely on the market in environmental policy. In some cases they have sought to reassert the comprehensive planning, centralized governmental approaches of the old progressive movement. In other cases, environmentalists have simply shown a moral dislike of the workings of the market, sometimes reflecting a basic antagonism to a capitalist economic system in general.

In the end, this moral disapproval has often reflected a religious way of thinking about the environment. Some members of the free-market environmental movement have moved beyond the standard economics to seek to apply a “theological” lens to criticize such religious elements of modern environmentalism. This kind of discussion enters into an examination of appropriate environmental goals as well as the best means to achieve these goals.

### Environmentalism, Chicago Style

Ronald Coase was the father of a “new institutional economics” that has shown a basic interest in the functions of private property rights in an economic system. Coase argued that property rights should be tailored to minimize the level of “transactions costs” in the economy. If this could be done, many market “failures” would no longer exist. There would be no need to establish a large and bureaucratic apparatus of government regulation, as many economists had proposed in the past. In effect, a better system of property rights could act in many cases to “internalize the externalities.”<sup>5</sup>

Drawing on such Chicago thinking, as worked out in particular by the law and economics movement (Coase himself was affiliated with the law school at the University of Chicago after 1964), perhaps the most important contribution of free-market environmentalism has been to emphasize the role of private property rights for the protection of the environment.. Many environmental problems simply reflect the existence of a poorly designed – or even totally absent – system of private rights.<sup>6</sup>

Without private property rights, the management of a natural resource will be yet another “problem of the commons.” Overexploitation and mismanagement will almost inevitably be the result. It would be like trying to farm corn in Iowa without anyone

owning the fields or the presence of any other system of land ownership. That is in effect what has happened in various natural resource areas such as fisheries where it has been impossible to capture privately many of the benefits of individual actions.

As an example of a property right system harmful to the environment (and economically inefficient as well), water rights in the West traditionally were allocated according to the doctrine of “appropriation rights” (unlike “riparian rights” in the East). The holder of water rights faced a “use-it-or-lose-it” requirement. There were often tight restrictions on the ability of the holders of water rights to sell these rights to new users.

Western cities and other sources of increasing demand for water thus found it difficult to purchase this water from existing agricultural users. Hence, they pushed for the construction of dams and other water projects to increase total water supplies. The use-it-or-lose-it requirement tended to minimize in-stream flows in the lower parts of river systems. It was impossible for fisherman or other conservation groups to buy water rights for the purpose of maintaining in-stream flows in rivers. These problems could be addressed effectively by recognizing newly saleable water rights that could be held for any purpose.<sup>7</sup>

Livestock grazing on public lands involves a similar use-it-or-lose-it requirement for the forage of particular “allotments” for grazing (under the Taylor Grazing Act of 1934 the only allowed forage use is livestock). There are also limits on the salability of the use rights to forage on public lands -- the buyer must not only be in the livestock business but must also own “base property.” Again, the result has been both inefficient economically and harmful environmentally.

Recognizing freely transferable grazing rights would allow environmental groups to buy out these rights in say a wilderness area (where livestock grazing is permitted under the Wilderness Act of 1964).<sup>8</sup> In other places, an environmental group might buy out grazing rights and then sublease them to ranchers under conditions set and monitored by the environmental organization itself.<sup>9</sup> In the case of fisheries there have seldom been any property rights at all, leading to gross overfishing and population crashes for many fish species. In many cases the best solution would be to create a system of private property rights to a fishery – sometimes described as a system of “individual transferable quotas (ITQs)” to harvest prescribed amounts of fish stocks.

Water, public land forage, and fisheries all involve situations of clear physical resources that are widely recognized as such and that involve uses that must be limited at some point. In the cases of air and other forms of pollution, it is only in the past 50 years that any real limits have been sought – that the “sink capacity” of the environment to absorb pollution has come to be recognized as yet another important form of a physically scarce resource.

As long as “pollution rights” were treated as a free good with a zero price, there would obviously be a tendency to emit as much pollution as anyone wanted. When sink capacity finally came to be seen as yet another scarce item, an obvious market solution would be to price these rights. Once again, that could be accomplished by means of establishing a system of property rights to emit a given form of pollution.<sup>10</sup>

Environmentalists long resisted this approach – partly objecting to any granting of a “right to pollute” -- but finally agreed to experiment with it as part of a broader political compromise in the Clean Air Act Amendments of 1990. A market in (less than

full) rights of power plants to emit sulfur dioxides was created, granting the initial pollution rights to the existing plants. The evident success of this new system led to a shift in attitudes among many environmentalists, including the development of proposals for market trading in various other areas such as nitrogen oxides and carbon dioxide.

The problems of “urban sprawl” – to the extent that they are real – largely reflect yet another failure of property rights and pricing. The urban highway system is in effect a public “commons” with the normal problems of overexploitation and utilization (i.e., severe traffic jams). It may be possible to adopt pricing systems at present such as tolls on the use of HOV lanes during peak hours. In the future, based on the technology of satellite geopositioning systems (GPS), it may be possible to trace the movements of individual cars and thus to adopt much more refined and sophisticated pricing systems for the use of urban streets. (Germany has recently announced plans for such a system for use of its major highways by large trucks.)

This illustrates the fact that the feasibility of a system of property rights can change to reflect the state of technology at any given time (and also the creativity of property right designers). The introduction of barbed wire in the nineteenth century, for example, made it economically feasible to fence off many western rangelands into private grazing areas.

Free-market environmentalism has also sought to improve the system of property rights by addressing defects in the workings of nuisance law and liability law. There might not be any need for regulation of toxic sites, for example, if nuisance and liability laws were to be vigorously applied. The problem in the past was a lack of information about actual hazards, both on the part of people living near toxic sites and the companies

creating the hazards. Rather than direct federal commands and controls, the better policy might be to conduct research into toxic hazards and to find effective ways to disseminate the resulting information among affected parties.

Even when government regulation may be necessary in some cases, there are few spillovers across state boundaries from many pollutants such as toxic wastes. State and local governments might therefore assume the regulatory burden. One side of the free-market environmental movement has also argued for a radical decentralization of environmental policy (although other free-market environmentalists argue that state or local governments will also suffer from many forms of “government failure”).<sup>11</sup>

#### The Failed Progressive Legacy

In *Capitalism and Freedom* in 1962, Milton Friedman argued that government was failing in a host of areas. It would be better simply to rely on the workings of private markets. Friedman proposed, for example, the abolition of fixed exchange rates for foreign currencies and the ending of the military draft – and both proposals would in fact be adopted within the next decade. He suggested the deregulation of airlines, railroads, communications and other industries, as has substantially taken place over the past 25 years. He proposed the “negative income tax” as a replacement for poverty programs – another radical proposal at the time which has been realized in part as the existing earned income tax credit.

In other countries around the world, industries such as the airlines were not regulated but had been nationalized outright. Chicago arguments helped to launch a worldwide privatization movement to divest such government owned businesses. At the federal level in the United States, however, there were only a few government owned

businesses such as the Postal Service. In this country, the deregulation movement assumed the role that privatization played in other countries. It led, for example, to the end of comprehensive federal regulation of transportation, and the abolition of the Interstate Commerce Commission and the Civil Aeronautics Board.

The one largest exception with respect to the extent of federal government ownership was the public lands. In the western United States, almost half of the total area consists of lands owned and managed by the federal government. The State of California, for example, is 45 percent federal land. Nationwide, the Forest Service manages 192 million acres, almost 10 percent of the land area of the United States.

The same Chicago thinking that was leading to widespread privatization initiatives in other nations is applicable to the public lands in the United States. (Friedman had himself proposed the privatization of the national parks.) A number of free-market environmentalists have proposed the privatization of all or some significant parts of the federally owned lands. It could be seen as the public land equivalent to the deregulation movement that was leading in the United States to the abolition of a number of regulatory agencies. Some of these same regulatory agencies had been created in the progressive era, reflecting the influence of the same progressive theories that at that time also prompted the setting aside of the public lands in long term federal ownership.

George Stigler and James Buchanan (a founder of the “public choice” school of economics) emphasized the tendency of regulatory and other government agencies to be “captured” by private interests.<sup>12</sup> Friedrich Hayek emphasized the information and other problems that made it impossible for government to plan comprehensively for large scale

economic systems. These arguments were now applied to the public lands and the basic federal role in western natural resources.

The studies of free-market environmentalism have demonstrated the many ways in which public land management has been used for private gain and has failed in its aspirations to plan comprehensively for the use of the lands “in the public interest.” The U.S. Forest Service, for example, was created in 1905 and long had an organizational culture grounded in the concepts of scientific management of the national forests. In practice, however, politics more than science always drove Forest Service management decisions. Progressivism has been labeled the “gospel of efficiency” but efficiency generally took a back seat to political considerations on the national forests.

Mainstream economists such as Marion Clawson of Resources for the Future concluded by the 1970s that the management record of the Forest Service was “disastrous” (as Clawson wrote in *Science* magazine) in terms of the efficiency of its economic outcomes.<sup>13</sup> When timber was sold for harvest, it sometimes failed to bring in enough revenue to cover merely the costs of selling it. Such “below-cost” timber sales were not only economically wasteful but could be environmentally harmful as well.

For much of the twentieth century, the Forest Service had suppressed forest fires in the name of the scientific management of the forests. By the 1990s, it was widely recognized that this management had better served the public image of the agency (Smokey Bear, etc.) than any scientific realities on the ground.<sup>14</sup> Suppressing fire ignored the obvious fact that the trees would continue to grow and more wood would then accumulate in the forest (and eventually burn, as would have to happen).

Suppression also changed the composition of ponderosa pine, western larch and many other western forests, leaving them in a more fire prone condition. Severe fire seasons in 1994, 1996, and 2000 imposed large economic burdens and dislocations, as well as considerable environmental damage. It was another failed legacy of the “scientific management” of the public lands.<sup>15</sup>

The grazing fee for livestock grazing for much of the 1990s was \$1.35 per “animal unit month” (AUM). On lands owned by the western states, the state grazing fee was often two to three times this level. Federal studies of private grazing in the same areas suggested that a market fee would almost certainly be greater than \$4 per AUM, and perhaps much higher for some federal grazing lands. The annual costs of administering the grazing program of the Bureau of Land Management (BLM) were perhaps ten times the total government revenues per year from grazing fees. In concept, it would be much cheaper to buy out the rancher grazing “rights” on federal lands than to continue to administer the BLM grazing program.

American progressivism arose early in the twentieth century at about the same time as European democratic socialism. Both sought the “scientific management” of society, although the Europeans were often willing to go farther in limiting the role of democratic institutions. Indeed, progressivism might be described as an American milk-toast version of European socialism.

The government failures on the public lands were closely analogous to the failures of socialist planning and governing institutions as experienced in Europe and elsewhere around the world. Government had more often ended up being used for “private” than for “public” purposes. Free-market environmentalism applied the broader critique of

the failures of socialist planning and management to the one area of American government – the public lands – where direct federal ownership was a widespread fact in the United States.

As was realized in the 1990s, the old Soviet Union and eastern Europe nations were environmental disaster zones. In this country as well it had often been governments that showed the greatest disregard for environmental consequences.<sup>16</sup> The worst toxic cleanup problems in the country were found at Hanford, Rocky Flats and other sites of the former nuclear bomb building program.<sup>17</sup> The construction of many dams on western rivers had been possible only with large federal subsidies. Wolves and other predators had once been exterminated by federal government programs.

The original progressives had turned to government as a solution to the overexploitation of natural resources in the late nineteenth century (the slaughter of the buffalo, the “devastation” of the forests, etc.). What the progressives had failed to recognize was that these problems arose in almost every case from a lack of an adequate system of property rights. If anyone had been free to “hunt” any cow that they might have encountered, the population of cattle on the range would also soon have been severely depleted.

Without a workable system of property rights, the market can not be expected to function. In place of the failed progressive instruments of government control, free-market environmentalism now seeks the development of new systems of property rights for the lands and natural resources in the West that had remained in federal ownership through the twentieth century.

## Environmental Progressivism

In the 1960s and 1970s there was almost as much agreement on the “left” as on the “right” of American politics concerning the past failures of the progressive designs for public land management. It was an era of wide acceptance of the tenets of “interest-group liberalism,” as this trend of thought has been described by political scientist Theodore Lowi.<sup>18</sup> A fellow political scientist, Philip Foss, wrote in 1960 in *The Politics of Grass* of the domination of the BLM by public land ranchers.<sup>19</sup> The idea of the government pursuing “the public interest” was increasingly regarded as an anachronism. The governing process instead achieved a new kind of private equilibrium – analogous in some ways to the competitive interactions of the free market – reached in the political process among the various private interests in society.

The logic of such thinking strongly suggested a turn to a market solution, as the Chicago school proposed. If politics is to be regarded as another arena for market-like interactions, it is nevertheless a barter form of exchange that lacks a common denominator of prices and money. Compared with a regime of political exchange by barter, a market system with money and prices is virtually certain to have lower transactions costs and to produce larger gains from trade.

Politics might have a much different – and more socially acceptable -- distributional starting point, as compared with the market. However, the initial asset endowment for trading could be modified in considerable part by government actions to redistribute income – leaving the redistributive function as the main government role, and undermining the justification for many current activities of federal and state governments.

American environmentalism was becoming a powerful political factor in those same decades of the 1960s and 1970s. However, rejecting the logic of such arguments, environmentalism by and large sought to reassert the original progressive vision. In a court settlement with the Natural Resources Defense Council, the BLM was forced to spend hundreds of millions of dollars for developing 144 comprehensive land use plans covering its 190 million acres in the lower 48 states. The process took 13 years and prevented the BLM from taking many management actions during this long period.

Also influenced by environmental lobbying, similar planning requirements were imposed by Congress in a spate of public land legislation of the 1970s, including the Federal Land Policy and Management Act of 1976, the National Forest Management Act of 1976, the Federal Coal Leasing Amendments Act of 1976, and the Outer Continental Shelf Lands Act of 1978. More land use planning was seen in those days as virtually desirable in principle; it was in part a symbolic way of reasserting a faith in a more rational world.

By the 1990s, however, there was wide agreement that this new effort to apply formal planning and other progressive methods in public land management had failed.<sup>20</sup> The results of land planning for the public lands were being criticized on all sides; the public land agencies sought to bail a sinking ship with constant revisions to their planning systems. But nothing seemed to work. To some extent, environmentalists were simply repeating the misconceptions of the socialist planners of old. For a certain mentality (lawyers are often among the most afflicted), it seems that social and economic planning must be an easy task -- just create a design and then implement it, like building a house.

Some people seem to be immune to the logic of contrary economic arguments; they can learn only by bitter experience.

The appeal to planning is a form of utopian thinking for those people who find the confusions and compromises of the world difficult to accept. The market, by contrast, is seen as a virtual social license to sin – to pursue private self interest at the expense of fellow citizens. In Christian theology it was only after the fall in the Garden of Eden that selfish pursuits of individual advantage entered the world. The appeal of the millennium – a time when sinfulness will finally be ended in the world – is a seeming constant in human affairs, taking both traditional Jewish and Christian forms, and in the twentieth century more often a secular form. Public planning is almost invariably a key element in these visions.

Contemporary environmentalism also sees the social obligation to protect nature in moral terms. The Endangered Species Act is a new version of the story of Noah's Ark; God did not have to pay Noah to protect the species of the earth. In World War II, many Americans were drafted into the army at low rates of pay. In a family, the members are not supposed to be paid for doing their household chores. The environmental cause, as many environmentalists have seen it, involves a similar moral imperative and a similar necessary collective response in American society.

### Environmental Religion

Environmentalism is a wide ranging and diverse movement. Some environmentalists are concerned primarily with utilitarian objectives such as less pollution and cancer. For many others, however, environmentalism is a form of secular religion that appropriately invokes moral obligations. The moral and religious quality of

environmentalism is often apparent in its language. There is a need to “save” endangered species and other parts of nature. The forests are “cathedrals” that provide a place for “contemplation” and feelings of “spiritual inspiration.” Developers are sinners who seek to “rape” the land. As was once found in the Garden of Eden, it is necessary to seek a true “harmony” with an original state of nature.

For some devout Christians, environmentalism is simply a false modern heresy to be condemned for that reason. Few people in the camp of free-market environmentalism, however, emphasize that view (the libertarian movement itself has traditionally had many religious skeptics). However, it was still possible to criticize environmental religion from a secular perspective.<sup>21</sup> It might be based on incorrect factual assumptions, for example, or it might contain basic flaws in the logic of its reasoning. Some members in the camp of free-market environmentalism have sought to engage in what might be described as a “theological” critique of environmental secular religion.<sup>22</sup>

Many environmentalist, for example, have sought to restore “natural” conditions to the public lands of the West. This goal has been central to “ecosystem management,” as pursued by the Forest Service and other federal land agencies since the 1990s. In seeking to give an operational definition of “natural,” environmental advocates focused on restoring the national forests and other public lands in the West to the conditions prior to European settlement. This is virtually a theological position, akin to recovering the Garden of Eden. Yet, it suffers from the problem that native Americans occupied these lands for thousands of years before Europeans arrived. An important counter-argument to “ecosystem theology” is that it amounts to putting native Americans in the same “natural” (and moral) category as grizzly bears and wolves.

It is also almost impossible to find places in the western United States where nature has not been significantly affected by human actions in the twentieth century. Most forests have been significantly altered by policies of fire suppression. To restore “natural” conditions – or at least conditions prior to European impacts – would require heroic acts of current human management intervention. It is questionable whether any such result could be described as “natural.” If a Rembrandt is destroyed in a fire, it may be possible to create an exact replica but the original Rembrandt is lost forever. Pretending otherwise leads towards what might be called “Disneyland” management of natural resources and the public lands.

I recently visited a Nature Conservancy site that was described in the promotional literature as a last remaining “natural grassland site” along the Oregon coastline. Most visitors probably felt inspired to be in the presence of true nature, and with the efforts of the Nature Conservancy to protect the natural ecology. It turned out on further investigation, however, that there were almost no natural grasses to be found there; most of the site had been taken over by invasive species whose initial presence dated to cattle grazing over the past fifty years.

Environmental religion can also be criticized when members of the faith engage in hypocritical behavior. Every age has its Elmer Gantries. Many of the environmentalists living in Boulder, Colorado, I am told, drive large SUVs, even while preaching the moral virtues of energy conservation and a light human touch on the earth. A recent series of articles by Tom Knudson in the *Sacramento Bee* pointed to the “business” side of contemporary environmentalism and the frequent hypocritical behavior that is found.<sup>23</sup>

As Donald Worster has said, American environmentalism has strong roots in the history of Protestant religion.<sup>24</sup> John Muir and Dave Foreman were brought up in the same strict Protestant sect. The most important of the Protestant influences has been Calvinism, as found first among the Massachusetts Puritans and then taking new secular forms in New England transcendentalism in the mid nineteenth century and yet again in modern environmentalism.<sup>25</sup> If Calvinism emphasized the total corruption of human nature since the fall in the Garden, leading environmentalists such as David Brower and Foreman often spoke of human beings as the “cancer of the earth.”

For Calvin, human nature might be corrupt since the fall but the presence of human beings on earth was given meaning and justification by God. As commonly a secular form of religion that lacks a belief in the Christian God, this element is missing from much of environmentalism. If human beings are the cancer of the earth, and there is no possibility of human redemption, the moral thing might be to get rid of the human presence altogether (leaving aside the practical question of how this might be accomplished). As the environmental historian William Cronon has said, “if nature dies because we [humans] enter it, then the only way to save nature is to kill ourselves.”<sup>26</sup>

If removing humans is impossible, the next best thing might be to eliminate the impact of human activity over as much of the earth as possible. That seems to be the goal of the “wildlands project” which seeks to extend wilderness values over as much of North America as possible. The formal national wilderness system now extends to 100 million acres of public land. Many advocates of wilderness are drawn to these areas simply as a good place to hike and camp and engage in other recreational activities. However, others

see them as a place where human impacts – human “corruption” of nature – is at a minimum.

There are many potential reasons to object to this theological outlook. Indeed, Cronon has criticized the environmental value system – its religion – for this very reason. He finds that the emphasis on wilderness values – and the goal to separate “innocent” nature from “sinful” humanity -- has a harmful impact across many areas of current environmental policy. Besides the fictional quality of scenes of “nature unaltered by human impact,” this set of attitudes has diverted attention from greater efforts to improve the ordinary human environment in the places where most people actually live.

#### The Genesis of Free-Market Environmentalism

In an article not long ago, an environmental advocate was moved to explain why many “environmentalists hate mainstream economists.”<sup>27</sup> Economists represent an opposing value system – they have their own religion, one might say -- and its tenets come into frequent conflict with the environmental gospel.<sup>28</sup> When I first encountered the environmental movement in the mid 1970s, and as an economist myself by training, I soon recognized the basic philosophical (or theological) tension. I strongly supported most environmental goals such as reducing pollution and creating more outdoor recreational opportunities. I was put off, however, by the anti-human flavor of the environmental movement and by the utopianism of its policy methods and proposals. (Even while recognizing that many worthwhile environmental goals were being achieved as a result of the pressures of the environmental movement.)

There was no free-market environmentalism as such at the time. To the extent that economists were engaged with environmental issues, it was mostly as advocates of

an “economic progressivism,” as applied to the environment. The intellectual center of such thinking was Resources for the Future – a close equivalent in the field of natural resources and the environment to the thinking of the Brookings Institution in other economic policy areas. Resources for the Future had a history of involvement in western public land and natural resource policy issues since the 1950s, led by two of the most prominent economists in the field, Marion Clawson and John Krutilla.<sup>29</sup> Today, among the many think tanks in the United States, it still has the largest group of social scientists (mostly economists) working in the field of environment and natural resource policy.

The first institutional center for the advocacy of free-market environmentalism was the Political Economy Research Center (PERC), created in the late 1970s in Bozeman, Montana. The co-founders of PERC were John Baden, a political economist of libertarian persuasion who had taught previously at several universities, and Richard Stroup, a free-market economist in the economics department of Montana State University. They were soon joined by Terry Anderson (the current president of PERC). In 1991, Anderson and his PERC co-author Donald Leal published *Free-Market Environmentalism*.<sup>30</sup> If not the first use of the term, the success of that book and its adoption in many college courses introduced “free-market environmentalism” to much wider usage.

PERC often acted in the role of translating the ideas of the Chicago school of economics to the field of public land and natural resource management in the West. The main themes included the importance of a property right system; the failures of the government planning and management of the western public land agencies; the

environmental damage done by many government activities themselves; and the need to harness positive incentives for environmental purposes.

In 1986, John Baden left PERC to found his own organization, the Foundation for Research on Economics and the Environment (FREE). FREE has put less emphasis on formal research studies but in other respects has carried on up to the present time with many of the same activities as PERC, if on a smaller scale. Both FREE and PERC published books and articles and sought to reach popular audiences through op eds and magazine articles. They held numerous conferences in the 1980s and 1990s that often gathered together the small band of free-market thinkers on environmental issues in the West. It was important to encourage such networking because free-market thinkers working in the area of the environment were few and far between on most university campuses.\*

Randal O'Toole came to free-market environmentalism from a background in the environmental movement. During the 1980s, he worked for environmental organizations as a consultant on the contents of local national forest plans, as they were being developed by the Forest Service. His task was in essence to show the failings of the plans as a basis for contesting their results, often through appeals or litigation. This was not a difficult task in many cases.

O'Toole's influential 1988 book, *Reforming the Forest Service*, advocated putting individual national forests on an independent, self-sustaining basis – in the manner of a public corporation.<sup>31</sup> They should be free to charge recreational and other fees and to retain the revenues locally for their own forest purposes. In the 1990s,

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\* I first met the current Secretary of the Interior, Gale Norton, at a PERC conference in the early 1980s. She was then working at the Mountain States Legal Foundation in Denver. Later in the decade, she came to work in the Interior Department where I occasionally saw her there.

O'Toole founded the Thoreau Institute in Oregon which he currently directs; he moved away from the environmental movement and toward libertarian causes; and took up urban growth issues as an additional major area of public involvement and advocacy.

The largest “conservative” think tanks in Washington, D.C., the Heritage Foundation, the American Enterprise Institute and the Cato Institute, have typically regarded the public lands and western natural resources as a side issue. At Cato Jerry Taylor has been a visible spokesperson for many years for free-market views on the environment and energy issues, often involving the West. Cato has also sponsored environmental studies and papers by free-market thinkers such as Randal O'Toole and Karl Hess.

The Competitive Enterprise Institute (CEI) – founded by Fred Smith in 1984 – showed the greatest interest in natural resource issues among Washington think tanks.<sup>32</sup> Past staff members have often been prominent figures in these debates. R.J. Smith since the 1960s has been a strong advocate for privatization of lands and natural resources and did much to introduce the basic concepts of free-market environmentalism.<sup>33</sup> Ike Sugg was a leading critic of the Endangered Species Act during his years in the 1990s at CEI.<sup>34</sup> Jonathan Adler directed the environmental program of CEI for a number of years and is a leading advocate for the decentralization of environmental policy.<sup>35</sup> Many others at CEI have been involved in other aspects of environmental policy, often involving the EPA as well as the western land agencies such as the Forest Service and the BLM.

## Free-Market Environmentalism Today

The ideas of free-market environmentalism have moved from the fringes in the late 1970s to an important in current Washington policy debates. It is a diverse group and there is no official “credo.” There are often vigorous disagreements within the circle of free-market environmentalists on the specific details of policy. Some people are more satisfied with smaller and more incremental changes in public policy while others seek radical shifts in the near future.

There would nevertheless probably be broad agreement among free-market environmentalists on the following points.<sup>36</sup> I have divided them into “Broad Goals” and “Means.”

### **Broad Goals of Free-Market Environmentalism**

1. A clean environment is highly desirable. Reducing pollution, reducing human health hazards and increasing outdoor recreation opportunities are high priorities of modern society.

2. The conservation of natural resources -- including the protection of the plant and animal diversity of the world -- is also desirable and a social priority.

3. A clean environment and natural resource conservation cannot be absolute imperatives. While desirable and socially important, they must be balanced against other social goals that are also important.

4. There is not as much to be said for, and less priority should be given, to one particular environmental goal – that of separating the “corrupting” impacts of human beings from nature. The idea of separating humans and nature is both impossible in practice and intellectually and morally suspect.

## **Appropriate Means of Realizing Environmental Goals**

1. Government should work cooperatively with private property owners -- and that will often mean the payment of compensation for the costs imposed on these owners for environmental programs. It is unfair to demand large sacrifices of individual property owners for actions that are of general public benefit. Putting property owners at odds with the protection of the environment, as the Endangered Species Act often does, will furthermore be counterproductive for the environment in the end.

2. Decision making based on comprehensive or centralized government planning to protect the environment and to conserve natural resources will not work. Rather than improving decisions, it is more likely to impose procedural obstacles to effective management actions.

3. Instead of government planning, reliance on the market system will often offer a superior method of achieving environmental and natural resource goals.

4. The key to making the market work for the environment is to establish an appropriate set of private property rights (which perhaps can be encouraged by public actions but may often evolve less formally as well).

5. Where collective solutions are necessary, the collective process should be as decentralized as possible. Large bureaucracy and central governance invite rent seeking and other political costs. Lower levels of government are less susceptible to these political costs and will have better information available to make land use decisions.

6. Where regulation is necessary, there should be some type of benefit-cost analysis conducted. This need not involve an elaborate or formal economic analysis (which itself may be subject to bureaucratic manipulations). However, unlike some

current environmental laws, it is important that decision makers have the legal authority to consider the costs and to weigh these costs in some fashion against the benefits.

7. It is important to design environmental policies in a way that individual and private incentives are consistent with the achievement of environmental goals. Altruism can get you only so far. Many people will need positive incentives to do the right thing for the environment.

8. Yet, private voluntary efforts can also do much for the environment and should be encouraged. Many private land owners are excellent land stewards. They should be given the incentives and the necessary latitude to engage in good land stewardship of their own accord.

#### Areas of Policy Conflict

At least some parts of the environmental movement would be in agreement with many of these goals and means. Environmental Defense (formerly the Environmental Defense Fund) – where economists are often well represented in developing environmental policy proposals – might well be in agreement with the majority. Yet, on the whole there has been little acceptance in the wider environmental community of the ideas of free-market environmentalism.

Some of this is due simply to a lack of economic understanding or a basic hostility to the very idea of a capitalist system based on free markets. Beyond that, I would suggest that there are several legitimate concerns that free-market environmentalism should seek to answer more fully.

1. It is not always possible to create an adequate structure of property rights for some environmental problems. Metropolitan air pollution is a good example. There are so many emitters and so many potentially harmed parties that the transactions costs of a market solution would probably be prohibitively high (at least without the introduction of new monitoring or other technology that is not at present available).

2. It may be difficult to allocate property rights equitably. Creating new property rights gives valuable assets to some people and may create social inequalities. Getting past the disputes over the allocation of rights can take a long time.

3. The process of achieving a suitable property right system is poorly understood. If government seeks to design such a system, it may once again be subject to various forms of government failure. If government seeks to create or reallocate rights as part of the achievement of a new set of property right arrangements, this is not likely to be possible on entirely a voluntary basis. The moral legitimacy associated with an absence of coercion will be lost. The potential for private rent seeking will be large.

4. The market makes mistakes; it works by trial and error. In some areas where outcomes may involve considerable loss of life or serious injuries, a market process of learning by trial and error may not be socially acceptable. The “mistakes” may not be evident for many years. A firm might be willing to take large risks and then go bankrupt if it runs into bad luck.

At the end of the day, however, these may not be the fundamental reasons that free-market environmentalists and environmentalists often find themselves at loggerheads. The central difference, as it seems to me, is a moral vision that lies at the heart of many environmental “crusades.” Environmentalism often asserts absolute moral

truths with respect to the treatment of nature. This vision, like its original Christian inspiration, is an absolute and universal truth. No compromises are acceptable except for short run tactical and political reasons.

Many prominent westerners, including leading Democrats such as Cecil Andrus and Dan Kemmis, have been strong advocates for the decentralization of public land and other western resource management. Yet, over the past 20 years little actual decentralization has taken place. If anything, the actual trend has been the opposite, towards an increasing centralization of public land management. The leading explanation is the moral vision of the environmental movement. From the abolition movement to the prohibition movement to the civil rights movement, American movements have sought to employ federal power at the national level to realize their moral goals. That has been the case again with the contemporary environmental movement.

The question we face now might be posed in the following way. Is the environmental movement more like the abolition movement against slavery or the prohibition movement against alcohol? Is it more like the civil rights movement in its earlier stages of advocating the voting and other basic civil rights of black American citizens, or more like the civil rights movement in its later stages of advocating the large scale busing of school children?

American's moral movements have played a central role in the history of the nation, often providing the political impetus for necessary changes in society. Yet, they have also been subject to excesses of zeal that at times have been damaging even to their own cause. The full story of American environmentalism has yet to be written –

including the role that free-market ideas may eventually have in the environmental movement.

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## Endnotes

<sup>1</sup> See “Free-Market Environmentalists Gaining Stature,” *Washington Post*, June 3, 2001.

<sup>2</sup> For recent compilations of policy proposals of free-market environmentalism, see Jonathan H. Adler, ed., *Ecology, Liberty and Property: A Free Market Environmental Reader* (Washington, D.C.: Competitive Enterprise Institute, 2000); and Donald R. Leal, ed., *Conservative Conservation: Policy Proposals for the New Century* (Bozeman, MT: PERC, 2001).

<sup>3</sup> For more on the Chicago school, see Ch. 5-7 of Robert N. Nelson, *Economics as Religion: From Samuelson to Chicago and Beyond* (University Park, PA: Penn State Press, 2001).

<sup>4</sup> Cited in Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the Modern World* (New York: Simon and Schuster, 1998), p. 151.

<sup>5</sup> See Harold Demsetz, “Toward a Theory of Property Rights,” *American Economic Review* (May 1967); and Eirik Furobotn and Svetozar Pejovich, “Property Rights and Economic Theory: A Survey of Recent Literature,” *Journal of Economic Literature* (December 1972).

<sup>6</sup> Bruce Yandle, “Resource Economics: A Property Rights Perspective,” *Journal of Energy Law and Policy* vol. 5 (1983).

<sup>7</sup> See Terry L. Anderson, *Water Crisis: Ending the Policy Drought* (Washington, D.C.: Cato Institute, 1983); Terry L. Anderson, ed., *Water Rights: Scarce Resource Allocation, Bureaucracy, and the Environment* (Cambridge, MA: Ballinger, 1983); and Richard W. Wahl, *Markets for Federal Water: Subsidies, Property Rights, and the Bureau of Reclamation* (Washington, D.C.: Resources for the Future, 1989).

<sup>8</sup> Free-market environmentalists also argued that it would be desirable to go further to assign new full private rights to wilderness areas to be held by environmental organizations. See John Baden and Richard Stroup, “Saving the Wilderness,” *Reason* (July 1981).

<sup>9</sup> See Delworth Gardner, “A Proposal to Reduce Misallocation of Livestock Grazing Permits,” *Journal of Farm Economics* (February 1963); and Robert H. Nelson, “How to Reform Grazing Policy: Creating Forage Rights on Federal Rangelands,” *Fordham Environmental Law Journal* vol. VIII, no. 3 (1997).

<sup>10</sup> This argument was developed in J. D. Dales, *Pollution, Property and Prices* (Toronto: University of Toronto Press, 1968).

<sup>11</sup> See Michael Greve, *Feal Federalism: Why It Matters, How It Could Happen* (Washington, D.C.: American Enterprise Institute, 1999).

<sup>12</sup> See George Stigler, *The Citizen and the State: Essays on Regulation* (Chicago: University of Chicago Press, 1975); and James M. Buchanan, *The Economics and the Ethics of Constitutional Order* (Ann Arbor: University of Michigan Press, 1991).

<sup>13</sup> Marion Clawson, “The National Forests,” *Science*, February 20, 1976, p. 766.

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<sup>14</sup> See Robert H. Nelson, *A Burning Issue: A Case for Abolishing the U.S. Forest Service* (Lanham, MD: Rowman & Littlefield, 2000).

<sup>15</sup> See Robert H. Nelson, *Public Lands and Private Rights: The Failure of Scientific Management* (Lanham, MD: Rowman & Littlefield, 1995).

<sup>16</sup> See John Baden and Richard L. Stroup, eds., *Bureaucracy v. Environment: The Environmental Costs of Bureaucratic Governance* (Ann Arbor: University of Michigan Press, 1981).

<sup>17</sup> Robert H. Nelson, *From Waste to Wilderness: Maintaining Biodiversity on Old Nuclear Bomb Building Sites* (Washington, D.C.: Competitive Enterprise Institute, 2001).

<sup>18</sup> Theodore Lowi, *The End of Liberalism: Ideology, Policy and the Crisis of Public Authority* (New York: Norton, 1969).

<sup>19</sup> Phillip O. Foss, *The Politics of Grass: The Administration of Grazing on the Public Domain* (Seattle: University of Washington Press, 1960).

<sup>20</sup> For criticisms of past planning and decision making in the Forest Service, see Committee of Scientists, *Sustaining the People's Lands: Recommendations for Stewardship of the National Forests and Grasslands into the Next Century* (Washington, D.C.: U.S. Department of Agriculture, March 15, 1999); and General Accounting Office, *Forest Service Decision-Making: Greater Clarity Needed on Mission Priorities*, testimony to Congress by Associate Director Barry T. Hill (Washington, D.C.: February 25, 1997).

<sup>21</sup> Among my writings on this subject, See Robert H. Nelson, "Unoriginal Sin: The Judeo-Christian Roots of Ecotheology," *Policy Review* (Summer 1990); and Robert H. Nelson, "The Forest Fires Next Time: The Clinton Administration's Ecosystem Theories Have Reached a Dead End," *The Weekly Standard*, February 19, 2001.

<sup>22</sup> See Peter J. Hill, "Environmental Theology: A Judeo-Christian Defense," *Journal of Markets and Morality* (Fall 2000); and Paul Heyne, "Economics, Ethics, and Ecology," in Roger E. Meiners and Bruce Yandle, eds., *Taking the Environment Seriously* (Lanham, MD: Rowman & Littlefield, 1993).

<sup>23</sup> Tom Knudson, Five-part series in the Sacramento Bee, April 22-26, 2001.

<sup>24</sup> Donald Worster, "John Muir and the Roots of American Environmentalism," essay in Worster, *The Wealth of Nature* (New York: Oxford University Press, 1993).

<sup>25</sup> See Mark Stoll, *Protestantism, Capitalism, and Nature in America* (Albuquerque: University of New Mexico Press, 1997).

<sup>26</sup> William Cronon, "The Trouble With Wilderness; or, Getting Back to the Wrong Nature," in Cronon, ed., *Uncommon Ground: Toward Reinventing Nature* (New York: W. W. Norton, 1995), p.83.

<sup>27</sup> Bryan G. Norton, "Thoreau's Insect Analogies: Or, Why Environmentalists Hate Mainstream Economists," *Environmental Ethics* (Fall 1991).

<sup>28</sup> See Nelson, *Economics as Religion*; and Robert H. Nelson, *Reaching for Heaven on Earth: The Theological Meaning of Economics* (Lanham, MD: Rowman & Littlefield, 1991).

<sup>29</sup> See, for example, Marion Clawson, *The Economics of National Forest Management* (Washington, D.C.: Resources for the Future, 1976); and Michael D. Bowes and John V. Krutilla, *Multiple-Use Management: The Economics of Public Forestlands* (Washington, D.C.: Resources for the Future, 1989).

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<sup>30</sup> Terry L. Anderson and Donald R. Leal, *Free-Market Environmentalism* (Boulder, CO: Westview Press, 1991).

<sup>31</sup> Randal O'Toole, *Reforming the Forest Service* (Washington, D.C.: Island Press, 1988); see also Roger A. Sedjo, ed., *A Vision for the U.S. Forest Service: Goals for its Next Century* (Washington, D.C.: Resources for the Future, 2000).

<sup>32</sup> See Fred L. Smith, Jr., "A Free-Market Environmental Program," *Cato Journal*, vol. 11, no. 3 (1992).

<sup>33</sup> See Robert J. Smith, "Special Report: The Public Benefits of Private Conservation," in *Environmental Quality: The 15<sup>th</sup> Annual Report of the Council on Environmental Quality* (Washington, D.C.: Government Printing Office, 1986, pp. 363-429).

<sup>34</sup> See Ike C. Sugg, "Caught in the Act: Evaluation the Endangered Species Act," *Cumberland Law Review*, vol. 24 (1993), pp. 1-54.

<sup>35</sup> Jonathan H. Adler, "Let Fifty Flowers Bloom: Transforming the States into Laboratories of Environmental Policy," Prepared for the Federalism Project of the American Enterprise Institute (Washington, D.C., AEI, September 2001).

<sup>36</sup> For a recent review, see Jonathan H. Adler, "Free & Green: A New Approach to Environmental Protection," *Harvard Journal of Law and Public Policy* (Spring 2001).