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Market Solutions to the Environment

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Most people see an unbridgeable chasm between the desire of ecologists and environmentalists to have clean air and water and to control toxic wastes, on the one hand, and the pursuits of economists and business people concerned with economic development and prosperity, on the other hand.

A Reconciliation

These two views are seen as impossible to reconcile. It is, however, possible to reconcile the two, a reconciliation that upholds the goals of environmentalists but not necessarily their means. Economic means can be used to attain the environmental goals that most people of goodwill find most significant.

Profit and loss, the price system, private property rights, and markets are ways to harness incentives. They make it possible to achieve a sound environment. Contrary to the view of some, these aspects of the free enterprise system are not only a means, they are the best means to accomplish environmental goals. The alternative -- more central government planning and regulation -- does not lead to a healthy, sound environment, as many socialist countries have belatedly discovered.

Free Market Principles

The free market approach to environmentalism is based on three basic principles -- private property, the tragedy of the commons, and internalizing externalities.

Private Property -- When your neighbour's dog performs his business on the doormat outside your apartment, it is a threat to your home and a violation of your property rights. Certain sanctions can be applied. It is possible to go to the courts to obtain an injunction if your neighbour refuses to listen to reason.

But suppose that something of a similar nature occurs in a public park. Do you have as firm and fervent a reaction? Not likely. You may not be aware of it, but even when you are,

you do not lose out in quite the same way as when this occurs on your own doormat. You are directly harmed when your own doormat is despoiled. As a result, you take better care of it. This illustrates the difference in incentives that operates when something is privately owned versus when it is publicly owned. The presumption is that, all things being equal, we should rely on private, not public, enterprise.

The Tragedy of the Commons -- Shepherds discovered that common meadows were always overgrazed by their sheep. Perchance some public-spirited shepherd decides to take his sheep elsewhere, at some expense, in order to preserve the meadow. But soon enough other shepherds allow their sheep to graze on the meadow vacated by this public-spirited citizen, and the grass is not saved.

As you can see, there is very little incentive to act in a public-spirited way in a common meadow. If you own the entire meadow, you will prevent the shepherds from allowing too many sheep to graze there. That you will not do so under the institution of public property is the tragedy of the commons.

Internalizing Externalities -- Often, the desires of two sets of people are incompatible. Suppose a lake has a logging mill at one end and a water sports recreation ground at the other. The logging mill is an external diseconomy, namely, it is a harm to the recreation. It is not well realized, however, that the recreation is also an external diseconomy to the logging operation. Each interferes with the other; it works both ways.

How can we resolve this problem of incompatible uses? Under public enterprise, the answer will be decided in the political realm where the benefits and costs to each party concerned will not be taken into account accurately down to the individual level. A better approach would be to internalize the externalities -- allow one person or one company to own the lake and let that person make decisions based on the profits that can be earned from logging or recreation.

Given that we want both logging and recreation, the problem is one of allocation. It is not either-or. It might be either-or on one lake, given that the two uses are incompatible, but over society as a whole, we want to have a mechanism that will allow our desires for both activities to be incorporated in the decision-making process. The free enterprise system lets the owner pick the activity that will yield greater profits for him, and this is the activity that will also lead to greater customer satisfaction.

Species Extinction

We are all too aware of the results of actions of poachers in Africa, the herds of elephants left to die with their tusks cut off with a chain saw, and the tusks do not get their true market value but only their black market value. Here we have a problem of the tragedy of the

commons and a lack of the incentives that only private ownership can supply.

The poachers are aided and abetted in their activities by the villagers because elephants are not privately owned. The elephants destroy the crops of the villagers, who in turn have the incentive to encourage poachers to slaughter the elephants. As a result, the Convention on International Trade of Endangered Species (CITES) has tried to promulgate laws that will forbid the ivory trade.

Several African countries have taken a different route. Zimbabwe, South Africa, Malawi, Botswana, Zambia, and Mozambique have allowed privatization of the animals. In Zimbabwe, for example, the elephant population has grown from 30,000 to 43,000 over the last decade. In socialist Kenya, where ivory sales are banned, the elephant population has dropped from 65,000 to 19,000 over the past decade and faces extinction in the next five years. The private-property-oriented African countries have refused to sign the CITES agreement. But the danger is that, as more and more countries refuse to allow the import of ivory, there will be fewer incentives for owners to care for the elephants in these countries.

Some people say that the reason the elephant is being hunted to extinction is because of its highly valued ivory tusk. This is true under a regime of non-ownership. But when these animals are privately owned, the ivory tusk is the reason for their preservation.

Recycling and Hazardous Waste

The market is often blamed for promoting consumerism. People point to plastic foam cups and plastic bags and other items that are not biodegradable nor environmentally friendly and suggest it is an evil chase after profits that explains their presence.

A different assessment of the problem is offered here. Take the example of a choice between a paper bag and a plastic bag. Suppose that the plastic bag is a problem for the environment but that the paper bag is not, and that both cost the same to use. However, the plastic bag costs more to dispose of, say 50 cents as opposed to 10 cents in the case of the paper bag. The 50 cents represent the higher cost of waste management associated with an environmentally unfriendly product.

An individual who purchases any of these bags pays the same price for either one of them, which reflects only the cost of manufacture, and not the cost of disposal. Why not? The answer is that government has municipalized the solid waste management industry. The disposal service is paid for through taxes, and the individual does not pay anything extra for acting in an ecologically unsound manner.

Suppose a private enterprise is responsible for the disposal of solid wastes. Then the costs of using a plastic bag and a paper bag would differ since consumers have to take into account the costs of disposal. Fewer plastic bags would be used accordingly. The voluntary activities undertaken to recycle waste paper is certainly a step in the right direction and promotes awareness of the problem, but privatizing municipal services will do a lot more.

The Greenhouse Effect and the Ozone Layer

There are all sorts of scare stories. We should not assume that every last scare story is a realistic danger. On the other hand, the sky has to fall only once and we are in trouble. Let us suppose that global warming due to the greenhouse effect and the thinning of the ozone layer are real enough.

One quasi-market solution to this problem as opposed to direct government regulation is to set up a politically-determined threshold for chlorofluorocarbons or whatever the pollutants are, and then engage in an auction of pollution rights. You would buy and sell pollution rights that would be transferable and tradeable.

One proposed solution to the greenhouse effect is to maintain large acreage devoted to forests because trees take in carbon dioxide and give off oxygen. This raises the question of why the forests are disappearing. The problem here is that forest lands are publicly owned. Governments around the world have been responsible for excessive forest cutting, sometimes due to deliberate policy and sometimes as a result of mismanagement.

Lewis Solomon, Executive Director of Environment Probe wrote an article for the Wall Street Journal entitled "Save the Forests, Sell the Trees." He advocated privatizing forests because the market can preserve forestry resources more efficiently than government. The idea is being put into practice by the New Zealand government.

The Role of the Government

A free market solution to environmental problems does not necessarily imply that there is no role for government action, but seeks to redefine that role. Government should privatize environmental resources where feasible, create them where they do not exist, and ensure that property rights are protected by the law. The environment is in disarray because the government has been negligent in these essential tasks and has belatedly sought to remedy the problems through regulation and control. The failure of many of these measures in western countries suggests that a fresh approach is required, lest we waste precious tax dollars to no avail.