

POLICY REPORT

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The Environmental Impact of Government Policies

By John A. Baden

The American system of individual liberty, as specified by the Founding Fathers, has given us the best recipe ever written for improving social welfare. Over the past century, however, political entrepreneurs have moved us from a society in which "getting ahead" required productivity to one in which the most profitable investments lie in transferring wealth from one group (without their consent) to another or in defending oneself against such attempts. The coercive apparatus of government is used to empower this transfer society.¹

This is nowhere more apparent than in the federal management of natural resources. The Forest Service, the Bureau of Land Management (BLM), the Bureau of Reclamation, the Army Corps of Engineers, and the Bureau of Indian Affairs have used the federal treasury to transfer resources and to subsidize the destruction of environmental quality. Examples of such abuse are legion.

The Forest Service, which controls 187 million acres of public land, was established in 1905 to bring scientific, businesslike management to the public forests. It has utilized science, but it has shown little regard for economy or efficiency. For example, the Forest Service

has terraced significant portions of forest land, such as in the Bitterroot National Forest, planned intensive recreational developments in wilderness areas, and consistently and systematically arranged extensive deficit timber

"Only when land users face the true costs and benefits of their actions will productivity and environmental concern prevail."

sales.² The Forest Service has roaded and logged forests that are wilderness areas, using methods that would fail the cost vs. revenue calculations of Weyerhaeuser or Boise Cascade.³

The record of the other public land management agencies is no less discouraging. The BLM and the Forest Service have chained (an extremely damaging and inefficient method of leveling trees) or scheduled for chaining, millions of acres of pinyon-juniper ecosystems in the "Elfin Forests" of the Southwest. They have also designed controversial rest-rotation programs (where one pasture in a range is not used for a full year) for use on 87% of their grazing areas. The Bureau of Reclamation has destroyed winter range by building the Teton Dam and other

projects that can be justified only by ignoring the negative externalities imposed by these projects. By outlawing traditional checks on overgrazing, the Bureau of Indian Affairs has fostered the development of the worst range conditions in the United States while simultaneously impoverishing Indians in the name of communal ownership. The Army Corps of Engineers justifies the expansion of its activities by referring to an energy crisis that was generated primarily by government policies.⁴

Environmentalists, fiscal conservatives, and free market advocates all agree that poor judgment is used when these programs are supported. Yet these groups so far have failed to join efforts in lobbying for change. The supporters of the Sagebrush Rebellion, for example, are mainly concentrated in various commodity groups. They have responded to federal mismanagement by promoting the transfer of public lands to the states. There are few a priori reasons to support this transfer of valuable resources from one bureaucracy to another.

In terms of environmental quality, equity, efficiency, and enhanced cooperation, the solution to the problems lies in a reliance on private property rights and the rule of voluntary exchange. Only when land users face the true costs and benefits of their actions will productivity and environmental concern prevail. In other words, accountability is a prerequisite to productive behavior, environmental sensitivity, and individual freedom.

In the private sector, the asset value

(Cont. on p. 3)

John A. Baden is the director of the Center for Political Economy and Natural Resources at Montana State University. This article is adapted from a chapter in *Myths and Management of Natural Resources* by John Baden and Richard Stroup, to be published by Ballinger Press in June.

Free Enterprise: Practicing What We Preach

- The nation's third-largest automobile manufacturer asks for—and receives—\$1.5 billion in government-guaranteed loans.
- Trucking companies bitterly oppose deregulation of their industry.
- The National Broiler Council, the National Pasta Organization, the Millers' National Federation, and other trade associations demand protection from Common Market agricultural products.
- Companies in every city in America support taxpayer-funded urban renewal and redevelopment projects.

Free enterprise is under attack in America, and sometimes it seems that businesspeople are their own worst enemies. Business lobbyists in Washington go to Capitol Hill on Tuesday and Thursday to ask for relief from excessive regulation and taxes. They say they want to "get government off our backs and let the free enterprise system work." But on Monday, Wednesday, and Friday they may go to the same congressmen to ask for subsidies, loan guarantees, tariffs, quotas, regulatory cartels, and other forms of protection.

How can we expect the American people to respect our arguments for economic freedom if at the same time we demonstrate that we don't believe them ourselves?

William Simon wrote eloquently of this problem in his book *A Time for Truth*:

During my tenure at Treasury, I watched with incredulity as businessmen ran to the government in every crisis, whining for handouts or protection from the very competition that has made this system so productive. I saw Texas ranchers, hit by drought, demanding government-guaranteed loans; giant milk cooperatives lobbying for higher price supports; major airlines fighting deregulation to preserve their monopoly status; giant companies like Lockheed seeking federal assistance to rescue them from sheer inefficiency; bankers, like David Rockefeller, demanding government bailouts to protect them from their ill-conceived investments; network executives, like William Paley of CBS, fighting to preserve regulatory restrictions and to block the emergence of competitive cable and pay TV. And always, such gentlemen proclaimed their devotion to free enterprise and their opposition to the arbitrary intervention into our economic life by

the state. Except, of course, for their own case, which was always unique and was justified by their immense concern for the public interest.

My own response to such businessmen was harsh, and I warned those with whom I discussed these practices that they were indeed, as Lenin had predicted, braiding the rope that would be used to hang them.

Looking at these practices, astute observers come to believe that businesspeople don't really believe in the free market and that "free enterprise" just means welfare for business.

What can businesspeople do about this? First, stop asking for subsidies and protection. Never ask for government protection, no matter what the problem. The free enterprise system is a profit and loss system, and we must be willing to accept both the rewards and the penalties.

Second, speak out against businesses and business groups that do ask for subsidies. When the local Chamber of Commerce supports a bond issue for new construction, advocates of free enterprise must vocally and publicly oppose the Chamber. Ranchers who want to compete in a free market must oppose the National Cattlemen's Association when it calls for quotas on imported beef. Businesspeople across the country should speak out against the national Chamber of Commerce's support of private-sector job subsidies in the CETA program.

A number of businesspeople who support the free market have formed the Council for a Competitive Economy (410 First St., S.E., Washington, DC 20003), a national association of business and individuals that lobbies for the free market and against subsidies and protection for business. The Council takes a firm stand against regulation and taxes, but it also makes clear that a free market means no government intervention to help businesses, either. The Council makes the case that we will never have a free market as long as businesses want protection from competition.

The political climate may be more favorable for free enterprise now, but a substantial number of people think the Reagan administration is pro-business, not pro-competition, and that perception will set back any efforts to lower taxes or deregulate. Businesspeople can help the situation by making clear that all business wants from government is to be left alone—and by speaking out against those in business who demand something more. ■

Environmental Impact (Cont. from p. 1)

of the land holds the owner's wealth hostage to good management. Any inefficient erosion of productive land, any needless scarring of scenic land, or senseless destruction of unique habitat valued by the scientific community will be detrimental to the owner by lowering the land's asset value.

Society's Resource Management Problem

If we are to maximize the public forests' net contribution to social welfare, public managers must produce a delicate and changing mix of products. Clearly, management strategy would be different if the demand for forest products was very low rather than very high. If each product was marketed, managerial emphasis could shift in response to changing demands, leading to an optimal mix of outputs from the forest.

Most people agree, however, that federal agencies systematically fail to produce an optimal mix of products. In the absence of proper information (provided by prices), the agencies' task is inherently impossible. Because decisions are made on the basis of misinformation and incentives generated by the institution, it would be naive to expect socially optimal managerial decisions.

Given that resources are scarce in all societies, the first problem of social organization is how to use the available mix of resources to yield the highest valued ends. As Hayek states, "It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know."⁵

We can see that the fundamental problem of forest management is one of planning. To produce the social optimum, planners must know (1) how badly people want each product, (2) how to most efficiently produce each product, and (3) how to motivate people to efficiently produce each product. Unless answers to these questions are found and applied, optimal production will only occur accidental-

ly—probably a rare occurrence.

The important question is simply stated: How many answers to these questions best be generated in a constantly changing environment, where both preferences and opportunities are in constant flux? Given that it is exceedingly difficult for a large bureaucracy to be specific as to time and place, we can begin to appreciate the problems that even the most competent public land managers must confront.

Obviously, some form of decentralization is required if production is to be optimized. The Forest Service is divided into nine regions and subdivided into 125 national forests, with each forest divided into ranger districts. But this arrangement is not good enough. To be responsive to changing demands and opportunities (for instance, if the demand for 2 x 12s is down while that for hiking trails is up), the decision-maker must be aware of the relative changes in preferences and opportunities.

When all items carry a price that correctly states their opportunity costs (the highest valued benefit that must be sacrificed when one chooses a particular option), individuals in a market system based on property rights and voluntary exchange will systematically move resources to their most highly valued uses. In a market, data are available to decision-makers in the form of bid and asked prices, and the sincerity of the bidder never needs to be questioned. No similar mechanism is available without the use of pricing and private, transferable rights.

In terms of social welfare, scarcity has a diffused effect on production and consumption. In the market, this adjustment process occurs in the absence of centralized plans. The price system generates and disperses relevant information that is voluntarily taken into account.

I have discussed how economic efficiency and inherent bureaucratic problems are involved in the reduction of environmental quality. The next question is how institutional reform may

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Environmental Impact (Cont. from p. 3)

serve the interests of environmentalists while increasing the efficiency and sensitivity of resource utilization. America's dependence on foreign sources for strategic minerals provides a good beginning for a discussion of how private property rights can work to everyone's advantage.

Strategic Minerals: A Case for Privatization

Presently, America is almost totally dependent on foreign sources for at least a dozen essential minerals and for more than 50% of its supply of six other essential minerals.⁶ Most of the supply of columbite, strontium, titanium, manganese, chromite, and cobalt come from sources outside the U.S. Also, most of these minerals are only found in politically unstable or potentially hostile countries. For example, manganese comes mainly from the Soviet Union and South Africa. Cobalt comes primarily from Zaire, where 65% of the noncommunist world reserve is located. The major chromium deposits are in South Africa, Zimbabwe, and the Soviet Union. With the potential for substitution still limited, our high-technology society is extremely dependent on these strategic minerals, and they are becoming increasingly difficult to come by.⁷

While this situation may delight those who have ecotopian fantasies, Congress may feel differently. Rep. James Santini (D-Nev.), chairman of the House Interior Committee's subcommittee on mines and minerals, believes that "a chrome embargo by the Soviet Union and Zimbabwe would bring the entire industrial world to its knees in just six months." Sen. Harrison Schmitt (R-N.M.), a geologist and former astronaut, says, "Nature endowed us with unbelievably vast resources, most of which have not been tapped." John P. Morgan, Jr., chief staff officer of the U.S. Bureau of Mines, shares his view: "The U.S. could be virtually self-sufficient in all but a few minerals, such as chromite."⁸

A relatively high percentage of the land in mineral-rich states is in the pub-

lic domain: 95% in Alaska, 86% in Nevada, 66% in Utah, and 64% in Idaho.⁹ In 1977, the Department of Interior reported that 42% of public lands was closed to hard rock mineral activity, 16% severely restricted, and another 10% moderately restricted.¹⁰ One of the major problems with this trend, as seen by J. Allen Overton,

"Wilderness lands should be transferred in fee simple terms to environmental groups."

president of the American Mining Congress, is that "the overwhelming part of these lands was never adequately evaluated for mineral potential."¹¹

In the case of wilderness designation, there could be significant opportunity costs involved. When minerals are not extracted from protected lands, we pay the price in unproduced goods and in higher prices for goods that are produced. Wilderness designation is a transfer activity similar to any other government program that involves a redistribution of wealth. In this case, everyone pays so that those who enjoy the wilderness can reap the benefits.

The danger for wilderness advocates is that national policy could change drastically in the face of political constraints on the supply of strategic minerals. Sen. Schmitt, aware of such concerns, has suggested the possibility of basic changes in national land policy. He says, "As Soviet and other forces in the world gradually restrict or control our access to world energy and mineral resources, the question that wilderness advocates must answer is: 'Will they then advocate reopening Alaska and other federally controlled lands for rapid exploration and development in the national interest, when the national interest so dictates?'"¹²

Those who remember November

1973 realize that environmental concerns can be quickly swept away when the United States runs low on vital resources. The political railroading of the Alaskan pipeline is still a troubling memory for many of us. Ideally, the economic costs of any ecologically motivated action would be taken into account. But the ecological cost of any economically motivated action should also be entered into the calculations. The best hope of fulfilling both of these objectives lies in the institution of private property rights.

As an example of how private property rights and environmental quality can be complementary, consider the National Audubon Society's operation in the Rainey Wildlife Sanctuary in Vermilion Parish, Louisiana.¹³ Rainey is a refuge for birds that is so sensitive that the Audubon Society discourages tourists and even unmonitored bird watchers. It is carefully managed for a variety of wildlife—and oil wells.

Because the Rainey Preserve is in private hands, the Audubon Society has every incentive to use the resources efficiently. The timing, placement, operation, and structure of the oil operation is carefully programmed with the seasonal habitat requirements of the wildlife residents. Revenue derived from the operation is used to buy additional preserves and achieve Audubon Society goals. All participants win: The birds and other wildlife have their habitat preserved, the public gets its oil, and Audubon receives revenues to purchase additional preserves. The outcome is a function of property rights that lead to cooperative and efficient behavior.

Contrast Audubon's actions on their own lands with their pronouncements against exploration on public lands. There is little harmony between political and market decision-making.

An Alternative

Wilderness lands should be transferred in fee simple terms to environmental groups. Although such an action would result in a tremendous windfall for a group not noted for its disadvan-

Regulatory Watch**DEPARTMENT OF TRANSPORTATION**

The Department of Transportation has recently published its interim final regulations for the implementation of its response to the Equal Access to Justice Act. This act, which took effect on 1 October 1981, allows plaintiffs who successfully sue the federal government to be awarded attorney fees and/or expenses related to the case. Part of the act requires all federal agencies that potentially may be sued to establish uniform procedures for making the awards. Until these interim rules become final, they apply only to the Coast Guard.

The Coast Guard is amending its casualty reporting requirements for vessels damaged at sea. These amendments include the following changes. The monetary criteria for "physical damage" was increased to \$25,000; certain groundings, if intentional, need not be reported; the losses of propulsion and steering systems now fall under a different category of regulations; and all occurrences which affect "vessel fitness" must be reported. The Coast Guard is now considering the comments received on these regulations before issuing them in final form.

A policy statement on "Pavement Type Selection" has been issued by the Federal Highway Administration (FHWA) that is expected to provide summary guidelines on what sorts of materials should be used in the various pavement components of highway projects that use federal aid. The policy is designed to ". . . provide the public with acceptable highway service at minimal annual or life cycle cost while permitting maximum flexibility." Among the factors to be examined when choosing among different possible pavements are engineering evaluations and economic cost-benefit studies.

DOT's Research and Special Programs branch has issued final rules that allow the shipment of fluorinated hydrocarbons and similar gases to be classified as Dispersant gas or Refrigerant gas. This reclassification removes several reporting requirements, which mandated that pressure tank cars carrying these gases bear certain marks on their exterior. It is expected that this change will obviate the necessity for such marks as well as simplify the shipping paperwork. ■

their values, they will attempt to maximize the potential value of the resource. Assuming that they have a general interest in protecting wilderness rather than any specific land area, they will carefully evaluate the contribution that this land could make to their goals.

For example, if the area has a titanium deposit that is expected to yield a million dollars worth of net benefits, they would consider developing it. In their considerations they would confront three basic questions: First, how much profit would such an activity yield; second, how much additional wilderness land or services could be

bought with that profit; and third, can the land be managed to permit mineral extraction and still minimize the adverse environmental impact. In other words, how can the value of the joint products be maximized?

With fee simple title to the land, the wilderness group is forced by its own criteria to consider the opportunity costs of total nondevelopment. Rather than blindly opposing the extraction of commercially valuable resources from the land, they must focus on obtaining the resources while maintaining to an optimal degree the wilderness character of the area.

This change in the rules of the federal

Washington Update

✓ The Reagan administration has recently unveiled its revision of the federal coal leasing program, a set of changes that relax environmental constraints, speed up the process of leasing lands, and expand the coal industry's role in determining when and what lands are mined. The proposed regulatory rewrite was so extensive that only a partial statement of the plan took up 50 pages of the Federal Register. The revisions are intended to boost coal production and decrease American dependence on oil imports.

✓ President Reagan's 1982 budget will force the Internal Revenue Service to eliminate or reduce much of its assistance to taxpayers. Last year, IRS employees filled out the tax forms of more than 500,000 Americans who sought IRS help, but now this service will be available only to the handicapped. No decision has yet been made as to whether the IRS will continue its tax consultation services for beleaguered taxpayers.

✓ The Office of Management and Budget has proposed cuts in federal

education programs that would cut the largest of such programs (Title I) in half. Title I currently disburses aid to over 5 million children. Also facing reductions are the basic aid programs for low-income college students, vocational and adult education, and bilingual education. It is possible that by 1985, the Department of Education's research arm, the National Institute of Education, will be phased out entirely. Under these cuts, the Education Department would be spending \$9 billion in 1984 as compared to the \$15.5 billion it spent in fiscal 1981.

✓ The Senate has ended an 11-year effort to make businesses and business executives criminally liable for knowingly endangering life by violating regulatory and environmental laws. Under the Carter administration, a compromise proposal had been worked out that would make such offenses felonies, as part of a comprehensive attempt to reform the federal criminal code. These penalties were removed from Reagan's proposed code revisions in an effort to make the new code more acceptable to both Congress and the business community.

✓ Both the House and the Senate have approved legislation that will give many members a major new tax deduction so large that it will wipe out all or most of their income tax liability. Congressmen may now deduct the cost of maintaining a second house in Washington as a "business expense," a deduction that is expected to amount to approximately \$12,000 in most cases. Furthermore, an amendment was added to the bill that will effectively prevent IRS audits of this practice. The tax break itself was a rider on a bill which restructures the federal black lung program.

✓ The Reagan administration has announced that it opposes creating a special presidential commission to determine whether American antitrust laws have impeded the ability of American firms to compete both at home and abroad. Although the proposed commission has received strong support from the business and legal communities, as well as the Senate, it was dropped by the administration because of its "narrow scope" and because of budget constraints. ■

Environmental Impact (Cont. from p. 5)

minerals game could yield enormous benefits. With land in private hands, all interested parties would become more constructive in their thinking and in their language. Instead of discrediting the goals of others, they would be concerned with how desired ends can be best achieved at the least cost to others. The owners think this way in order to capture more revenues, selling off the highest valued package of rights that is consistent with their own goods, by taking the cost of others into account. Similarly, a buyer of rights to mine or of conservation easements wants to purchase his valued package at the least cost to the seller and thus to himself. In addition, the unlimited desires of every party are forced into priority classes. The most important land rights

will be purchased, and declarations that every contested acre is priceless will become absurd.

Even people in single-minded pursuit of profits or of narrow wilderness goals will act as if other social goals mattered. Indeed, they may seek out higher valued uses of their own acreage, using profits to obtain new means to satisfy their own narrow goals. After all, it is their actions, not the worthiness of their goals, that should concern the rest of society. ■

¹See Terry Anderson and Peter J. Hill, *The Birth of a Transfer Society* (Stanford, Calif.: Hoover Institution Press, 1980).

²See William F. Hyde, "Compounding Clearcuts: The Social Failures of Public Timber Management in the Rockies," in *Bureaucracy vs. En-*

vironment: The Environmental Cost of Bureaucratic Governance, eds. John Baden and Richard Stroup (Ann Arbor: University of Michigan Press, 1981), pp. 186-202.

³See Barney Dowdle, "An Institutional Dinosaur with an Ace: Or, How to Piddle Away Public Timber Wealth and Foul the Environment in the Process," in *Bureaucracy vs. Environment*, pp. 170-85; and Marion Clawson, "The National Forests," *Science* 191 (1976), pp. 762-67.

⁴See *Bureaucracy vs. Environment*.

⁵Friedrich A. Hayek, *Individualism and Economic Order* (Chicago: Henry Regnery Co., 1972), p. 78.

⁶*U.S. News & World Report*, 12 November 1979, p. 75. See also *Background Papers: Draft for Public Review and Comment of the Report on Nonfuel Minerals Policy Review* (Washington, D.C.: U.S. Department of the Interior, August 1979); Report by the Comptroller General to the Congress of the United States, *The U.S. Mining and Mineral-Processing Industry: An Analysis of Trends and Implications* (Washington, D.C.: Government Accounting

Office, 1979); and eds. James A. Miller, Daniel L. Fine, and Daniel McMichael, *The Resource War in 3-D: Dependency, Diplomacy, Defense* (Pittsburgh: World Affairs Council, 1980).

⁷*Wall Street Journal*, 26 February 1979, p. 24.

⁸Quoted in Tony Velocci, "Minerals: The Resource Gap," *Nation's Business* 68 (October 1980), pp. 34-36. See also William H. Drescher, *Raw Mate-*

rials for Industry: Our Next Major Crisis (Nashville: U.S. Industrial Council Educational Foundation, 1979).

⁹Public Land Law Review Commission, *One Third of the Nation's Land* (Washington, D.C.: Government Printing Office, 1970), pp. 121-38.

¹⁰*The U.S. Mining and Mineral-Processing Industry*.

¹¹Quoted in Velocci, "Minerals," p. 36.

¹²*Ibid.*

¹³For more on this, see John Baden and Richard Stroup, "Saving the Wilderness: A Radical Proposal," *Reason* 13 (July 1981), pp. 28-36.

¹⁴Gary Bennethum and L. Courtland Lee, "Is Our Account Overdrawn?" *Mining Congress Journal* (September 1975), pp. 33-48.

Preserving the Earth: The Property Rights Approach

By Robert J. Smith

The 1970s has been called, rightly or wrongly, the "Environmental Decade." Beginning with Earth Day and the passage of the National Environmental Protection Act, the nation embarked upon a period of environmental awareness unequalled in our country's history. "Ecology" and "pollution" became household words. The Nixon, Ford, and Carter administrations, together with an avid environmental bloc in Congress, piled law upon law and created agency after agency.

But the environmental movement also created a conservative backlash of pro-growth, antienvironmental zealots, and a belief that most environmentalists were no-growth advocates, extremists and socialists. A number of business and conservative magazines and newsletters used every opportunity to argue that since the worst predictions of the most extreme environmentalists did not come to pass, there was, therefore, little if any merit to environmentalist concerns. The environmentalists were more often than not dismissed as Chicken Littles or elitists more interested in preserving their scenic views and tax-subsidized recreational playgrounds at the expense of the poor, the working class, and

minorities who needed development and jobs.

The long-simmering discontent with massive federal ownership of western land* and resources began to boil with the passage in 1976 of the Federal Land Policy and Management Act, which directed the Bureau of Land Management (the single largest federal landlord) to hold its land "in perpetuity" rather than dispose of it to the states or the private sector. It also repealed the Homestead Act, thereby ending the acquisition of the vast public domain by American citizens. This quickly led to the creation of the Sagebrush Rebellion and a call throughout much of the West for a return of the public domain to at least state ownership, if not the private sector. A number of western states passed legislation calling for a return of their land, and similar bills were introduced in the U.S. Congress.

It became increasingly clear that the complex problems of incompatible multiple uses of the public domain would not be resolved rationally, but through the political process, with de-

isions made not on the basis of any cost-benefit analysis or upon any attempt to determine the optimal use of the resource, but instead through political pressure, with lobbying, and litigation. Environmentalists saw that politics was a two-edged sword. More often than not the pendulum swung their way in the 1970s, although there were setbacks. Congress overrode the NEPA suit against completion of the Alaskan Oil Pipeline during the Arab oil embargo in 1973, and in 1979, President Carter increased the allowable cut in the national forests because of economic priorities connected with the housing slump.

The environment has now become a political football. The Carter administration preferred preservation over "consumptive" use, closed the Grand Canyon to motorized boats and rafts, and restricted the use of off-road vehicles on the public domain. The Reagan administration pushed for opening of wilderness and recreational areas, as well as the Outer Continental Shelf, to accelerated leasing, exploration, and exploitation for petroleum and mineral resources; reopened the Grand Canyon's Colorado River to motorized craft, and began to push for opening beaches and fragile desert lands to off-road vehicles. The Colorado, America's first "wilderness river," will shortly become America's first ex-wilderness river.

* The total U.S. land area is 2,271,343,000 acres. The federal government owns, manages, or controls slightly over one third. Most of the public domain is located in the West, with about 63% of all the land in the 13 western states owned by the federal government. Additional holdings by state and local governments bring the total land ownership of the U.S. to about 40%.

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Preserving the Earth (Cont. from p. 7)

This on-again, off-again process should hardly be reassuring to anyone, even to those conservative and business supporters of more rapid development and intensive use of the public domain. Does anyone doubt that the next liberal administration and Congress will attempt to swing the pendulum back as far as possible to restrictions, lock-ups and wilderness preservation? But even then, when the final say on the use of the land or resources rests with the government, can the environmentalists be very sanguine about the likelihood of a preserve for an endangered whooping crane or peregrine falcon, let alone unsexy species such as a snail darter, holding out against any real or imagined national crisis requiring rapid exploitation of coal, petroleum, or strategic minerals?

What has been accomplished during this time, other than a deepening of the polarization of the conservative/pro-business and liberal/pro-environment dichotomy? In spite of huge expenditures, the creation of enormous bureaucracies, and the passage of laws affecting almost everything, there is little reason to believe that much was accomplished in the way of preserving the environment. There is evidence that at least some conditions that improved did so not because of government regulations, but in response to economic conditions, to market prices. Cleaner air has been a result of the shift from burning relatively dirty fuels (coal oil) to relatively clean fuels (natural gas), and rising energy prices have led to a much-reduced use of energy per dollar of GNP.

Actually, many regulations and legislation promoted by the environmentalists have led to deterioration of the environment. The Clean Air Act Amendments of 1977 have been responsible for a significant increase in air pollution, the "Midwestern Anomaly," which as Peter Navarro pointed out, produced "a higher overall level of sulphur emissions in that region than would otherwise have been experienced under the 1970 Act." Furthermore, this air pollution led to the

creation of acid rain. The Endangered Species Act has created such a thriving black market in rare and endangered wildlife that extinction threatens a growing number of species. The problem is that the environmental movement has dealt with symptoms, not with causes. Some wildlife was being

"It is only by the prohibition of the invasion of property rights that we can protect people from pollution."

exploited and was becoming endangered, so a law was passed against legal trade in wildlife products without attempting to discover the cause for the exploitation. As a result, much to the surprise of many conservationists, there has been an accelerated rate of loss of wildlife. Similar counterproductive efforts have occurred in other areas.

Ignoring the Real Causes

Dealing with symptoms has not been the environmentalists' only problem. Their rhetoric, and more importantly, their philosophical biases have served as blinders preventing them from discovering the real sources of environmental problems.

Environmentalists either explicitly or implicitly find the cause of nearly all environmental problems in the nature of the market system and in market failures. Although some deny that they are opposed to the free market economic system, even the most cursory examination of the decade's literature, from smudgy mimeographed newsletters to the most sophisticated and well-footnoted books, reveals a standard litany of horrors: Greed, self-interest, the profit system, the market economy,

commercialism, growth, and the unplanned nature of private property ownership. They conclude that Adam Smith's "invisible hand" does not allow for environmental preservation or wildlife conservation because the wishes of those who would save the earth are outweighed in the marketplace by shortsighted profit-seekers.

Environmental economists voice a similar theme, although clothed in the more sophisticated trappings of negative externalities. Their externalities approach to environmental degradation, and specifically to air and water pollution, holds that air and water pollution are characteristics of a free market economy because individual businessmen seeking their own gain have consistently been able to shift the burden of their pollution costs onto the public by dumping their wastes into the air and water, which are viewed as the common heritage of all mankind. This idea has arisen for a number of reasons, but primarily because pollution and environmental degradation first became a visible problem in the capitalist countries of the West where the Industrial Revolution had its origins. Most critics of the free market, whether Marxists or modern environmentalists, assumed that it was an inherent and inescapable problem of a system of production for profit and of private ownership. This idea led to the widespread belief that environmental misuse would disappear if the state were to own all the means of production. Therefore, it was maintained that because a private property, free enterprise system was "unable" to solve pollution problems, public ownership would. If industry and property were state-owned, the state would ensure that the interests of the general public would be protected and that the common good would be advanced.

Paradoxically, there have been very few "reality checks" by either the environmentalists or the economists. But by taking the simple, seemingly obvious steps of examining the property institutions underlying these issues, we can begin to understand the causes

of environmental degradation and resource overexploitation.

Pollution Under Socialism

With regard to the externalities analysis, over the past decade studies of the environment in the Soviet Union and Soviet-bloc countries have shown that they are characterized by continuous, ubiquitous pollution and environmental degradation. Since natural resources and the means of production are owned by the state, the rulers have been free to mobilize resources in an attempt to meet the goals of each succeeding "five-year plan." The unified drive towards industrialization and economic growth has precluded all other considerations. Therefore, because of the complete absence of a price system, there has been no way to rationally allocate the means of production, to deal with the problems of pollution, and to measure the costs of environmental disruption, or to place any true value on the rights of person or property.

Indeed, the lack of private property and individual freedom in socialist economies precludes even the very existence of an environmental movement. Printing presses, paper, ink, and the freedom to speak out are unavailable to anyone except the state.

If there is still any doubt about pollution in a socialist economy, the reports that began to come out of Poland following the creation of the Polish Ecological Club in September, 1980, depict Poland as the most polluted country in the world, with the most terrible industrial pollution of this century. The Polish Ecological Club reported "that before Solidarity all information on pollution was censored, that scientific reports were filed away and ignored, and that scientists had to exchange information secretly." A Czech journalist said, "We cannot afford to believe the information we have been given. We must believe that things are still the way they were before Solidarity."

Thus we see that the externality problem of environmental pollution, the disinclination of individual eco-

omic units to take nonpriced economic effects of their economic activities into account, is hardly specific to market-oriented economics. In fact, if we accept the externalities approach, then the entire Soviet economy is characterized by one gigantic externality. There is logically only one firm, the state, which has a disinclination to take any spillover effects into account.

The Question of Property Rights

However, the only fruitful way to deal with externalities is to consider them as property rights problems. If no one has property rights to the air and water affecting their person or property, there is no legal way to prevent invasion and pollution. If the decision-maker is not made to bear the costs of

"Environmentalists and their opponents must stop using the political process to make decisions about resource allocation."

his decisions, but passes these costs on to others, then property rights have been mis-specified and the legal system has failed to properly assign liability. It is only by the prohibition of the invasion of property rights that we can protect people from pollution. It is the absence of property rights, or the lack of enforcement of existing property rights, that creates the problem of externalities.

As stated before, the more general environmentalist approach to the issues is to look at symptoms, not at causes, and that they compound the error by injecting ideological biases. An example is their repeated condemnation of the free enterprise system for placing a higher value on dead wildlife than on living wildlife. But it is the ex-

istence of common property, based on the belief that property "belongs" to everyone and is the common heritage of all mankind, and therefore can be used by everyone—a common pool resource—which leads to the "law of capture." Richard Stroup and John Baden in "Property Rights and Natural Resource Management," *Literature of Liberty*, have succinctly defined it: "A common pool resembles one soda being consumed by several small boys, each with a straw. The 'rule of capture' is in effect: ownership of the liquid is not established until it is in one's possession."

This is precisely the source of the problems in dealing with natural resources. They have been treated as common property resources and part of the natural heritage of all mankind. This system is emotionally and philosophically appealing to most environmentalists, who believe that it is essentially immoral for someone to own wildlife, which should belong to everyone. But this is an extremely perverse system if their goal is to preserve resources. Someone acting rationally will take the last wild, unowned salmon in a common stream with no thought of tomorrow, because the very nature of the institutional framework—the absence of genuine private property rights, i.e., exclusivity—makes the fish valuable to the user only when it has been captured, only when it is dead. It has little value alive because the owner can't capture the value. He can't exclude other users of the resource. If he doesn't kill the fish, someone else will.

The ideological bias is found in the argument that this is symptomatic of the profit system—of entrepreneurial greed. But it has nothing to do with that. Soviet whaling ships give no thought to tomorrow when they avidly hunt down the last whales. Kenyan poachers readily kill the last elephants for their ivory or rhinoceros for their horn. The behavior of the resource users is not based upon ideology or upon the different types of economic systems under which they operate. What we do know is that the American own-

Preserving the Earth (Cont. from p. 9)

er of a salmon farm, for example, although motivated by entrepreneurial greed in a free enterprise system, does not overharvest his stock—although he might overfish wild salmon—but instead leaves stock for breeding. So would the owner of a small Chinese

collective. A cattleman would not kill his breeding stock, nor a corn farmer eat his seed corn. Similarly, the owner of an estate in Scotland carefully manages the habitat and the harvest of the thriving red grouse on his property, and thus they have not gone the way of

the American prairie chickens, which were treated as common property and thus nearly became extinct.

It is the existence or absence of property rights which determines whether man's self-interest and profit-maximizing will lead to the over-exploitation of a resource or a carefully managed and controlled use of the resource.

Once emotion, rhetoric, and philosophical prejudices are cleared away, it becomes evident that how the environment is treated depends on whether the resources are held as common property or private property.

Unfortunately, environmentalists have either overlooked the economic analysis of common property resources or they have deliberately ignored it because of the profound difficulties it raises for a philosophy that is opposed to private ownership of natural resources and wildlife.

The problems of overexploitation and extinction of wildlife appear to derive consistently from their being treated as a common property resource. Example after example bears this out. It is also predicted by the economic analysis of common property resources. Both the economic analysis of common property resources and Garrett Hardin's treatment of the tragedy of the commons suggest that the only way to avoid the tragedy of the commons in natural resources and wildlife is to end the common property system by creating a system of private property rights.

Environmentalists and their opponents must stop using the political process to make decisions about resource allocation. A system of private property rights in a free market would guarantee the optimal amount of environmental protection without granting some people arbitrary power over other people's property. Then we could all stop using the political system to gain power over others, and the resources currently expended to achieve political power could be used to produce things of real value, including both economic growth and environmental protection.

INFLATION MONITOR

A quarterly feature of *Policy Report*, the "Inflation Monitor" shows the distorting effects on relative prices throughout the economy of government fiscal and monetary actions. All figures are expressed as annual rates of change unless otherwise indicated.

	1981 3rd Quarter	1981 2nd Quarter	1981 1st Quarter	Average for Last Year
MONETARY SECTOR				
Monetary Base	5.8	6.0	5.6	6.9
M1-A	-2.2	-4.3	-18.6	-4.2
M1-B	2.7	2.9	6.6	5.6
M2	8.4	7.1	8.4	8.3
M3	10.1	9.8	12.0	10.9
Discount Rate (average)	14.0	14.0	13.0	13.2
Prime Rate (average)	20.3	18.9	19.2	18.8
PRICE CHANGES				
Consumer Price Index All-Finished-Goods Price Index	2.1	7.2	11.6	6.0
Intermediate-Materials Price Index	2.8	6.0	11.2	6.9
Capital-Equipment Price Index	4.3	10.0	12.4	11.6
	5.7	8.0	10.8	9.4
INDUSTRIAL PRODUCTION INDICES				
Consumer Goods	149.5	150.1	147.6	148.7
Producers Goods	154.7	153.9	153.8	153.2
Raw materials	154.4	153.9	153.9	153.0
Ratio of Capital Goods Production to Consumer Goods Production (1967 = 1.00)	1.03	1.03	1.04	1.03

SOURCE: Federal Reserve Bulletin.

PR Reviews

Aid as Obstacle: Twenty Questions about our Foreign Aid and the Hungry by Francis Moore Lappe, Joseph Collins, and David Kinley. Institute for Food and Development Policy, 1980. \$4.95.

While many analysts have questioned giving foreign aid to underdeveloped nations, most of the objections have centered around the cost to the American taxpayer and the wasteful use of the funds. Few writers have ever broached the argument that foreign aid programs to Third World nations administered by such multilateral agencies as the World Bank and the International Monetary Fund may actually harm the interests of most of the citizens of these nations. *Aid as Obstacle* makes a strong case for this proposition, supporting its argument with detailed facts. Although written from a "left-wing" point of view, this book avoids most of the Marxist fallacies that pervade much of what is written on development policy.

The authors examine such questions as whether most aid is used to support the private sector or the public sector, whether this aid disrupts Third World economies by distorting investment, how much of this aid finds its way into the hands of the poor, and whether aid is used to support repressive governments. In a comprehensive section entitled "A Primer: Some Essential Facts About the Aid Establishment," the authors offer an extremely useful outline of the size, scope, and purpose of the different government agencies that are involved with foreign aid.

The authors conclude: "Ending foreign aid to most Third World governments may be our most important contribution to overcoming poverty abroad." The authors suggest private aid as a replacement for government aid and outline the sorts of private aid that are likely to benefit underdeveloped nations. They point out that,

unfortunately, many private aid agencies are now co-opted by the public "aid establishment." *Aid as Obstacle* is recommended for all those who are interested in the problems of the Third World or who want further ammunition to use against American aid programs.

Free Enterprise Without Poverty by Leonard M. Greene. W.W. Norton and Co., 1981. \$12.95.

Dr. Leonard M. Greene, president of the Institute for Socioeconomic Studies, has produced a book in an attempt to defend what he perceives as the free enterprise system. Greene begins with some fairly accurate criticisms of our current welfare system. The welfare establishment has become a huge, overbloaded bureaucracy, which discourages work, breaks up families, and is an enormous burden on the American taxpayer. All one need do is add a little historical analysis to show how welfare has been used as a tool for controlling the poor and stifling dissent (see Piven and Cloward's *Regulating the Poor*), and the obvious conclusion would be to abolish the welfare state. However, this is not a step that Greene is willing to take.

Instead, the author recommends a "Graduated Income Supplement" (GIS), a plan for welfare reform that Green claims would "... (a) include a work incentive; (b) promote the integrity of the family; (c) offer uniform benefits; (d) be integrated into our tax system; and (e) be easy to administer." The author's proposal is basically an offshoot of the negative income tax proposal ("guaranteed annual income") that was popularized by Milton Friedman. However, Greene does not succeed in showing how his plan would fulfill his requirements a, b, and e. Neither does he show why planks c and d are even desirable. Most importantly, Greene never examines the

question of how a truly free market would handle the problem of poverty.

A quick perusal of the book's back flap reveals an interesting unification of left and right on America's political spectrum. This book bears endorsements from Sen. Daniel P. Moynihan (D.-N.Y.), Benjamin Hooks of the NAACP, Sen. Barry Goldwater (R.-Ariz.), and business leader John Diebold.

A Guide to Supply-Side Economics by Thomas J. Hailstones. Robert F. Dame Inc., 1982. \$5.95.

Thomas J. Hailstones, professor of economics at Xavier University, has produced a book that primarily will be remembered as another in the proliferation of tracts on supply-side economics. Unlike other recent works, Hailstones does not try to argue either for or against supply-side economics—his aim is to present a balanced view.

In the first several chapters, the author presents a rather simplistic view of the classical roots of supply-side thinking and an elementary exposition of the basic Keynesian model. This is followed by a chapter where Hailstones argues that "much of what supply-siders advocate, however, can be explained in terms of Keynesian Aggregate Supply-Aggregate Demand." Most of the rest of the book is devoted to an exposition of supply-side theory and policy.

This book is useful as a guide to current supply-side thinking, as it adequately fulfills the claims of its subtitle: "The What, Where, When, Who, and How of Supply-Side Economics—A Comprehensive View of the Supply-Side from its Classical Origins to Present Day Policies." Those looking for original ideas will be disappointed, but Hailstones gives adequate space to both the advocates and critics of supply-side economics.

"To be governed..."

Actually, it might have run better

"He [Sen. Roger Jepsen, former lieutenant governor of Iowa] often said he didn't think the state would start in the morning if he didn't get up," remembers his wife.

—*Washington Post*, Dec. 20, 1981

Taking care of business

Among the few groups of people who came out ahead financially in Congress this year were federal workers, especially high-level ones whose pay cap was lifted, and members of Congress themselves.

—*Washington Post*, Dec. 17, 1981

No, no Dave, you've got it all wrong

Arthur Laffer, the University of Southern California economist whose "supply-side" theories are at the heart of President Reagan's program, . . . added that Stockman's budget-cutting mania was unwise.

—*Washington Post*, Dec. 9, 1981

Always listen to the experts

The day after Pearl Harbor, *The Post* reported, Harold G. Moulton, head of the Brookings Institution, made a prediction. It would be a short war. Japan did not have the resources for a long one and would make "a desperate effort for a quick victory."

—*Washington Post*, Dec. 6, 1981

Except maybe for the prerogative of delivering mail

The Postal Service and the mails are here to stay—without infringing on any private-sector prerogatives.

—Postmaster General William F. Bolger in the *Washington Post*, Jan. 3, 1982

A rose is a rose is. . .

"'Foreign aid' has become such a pejorative phrase," [Rep. Jack] Kemp says, "but if you say it's a 'national security' measure, which I think it really is, then that changes everything."

—*Washington Post*, Dec. 6, 1981

Yes

There are more psychiatrists per capita in Washington than any other metropolitan area in the world.

These are unsettling numbers. An outsider to the world of Washington psychiatry might wonder: What are all these psychiatrists doing in the nation's capital? Are peoples' minds more likely to go on the fritz in Washington than their hearts, bladders or bowels? Is Washington really that much crazier than Nebraska?

—*Washington Post*, Nov. 22, 1981

Man bites dog

A man carrying a grocery bag and claiming to have a gun held up the Internal Revenue Service Federal Credit

Union in the basement of IRS headquarters here yesterday, escaping with an undetermined amount of cash, D.C. police reported.

—*Washington Post*, Dec. 2, 1981

Your guess is as good as mine

After getting off to a roaring start in 1981, the economy took its lumps—and so did the forecasters. For the second consecutive year, the quarterly pattern of the gross national product looked nothing like the consensus forecast of a year earlier. At the end of 1980, economists were expecting general sluggishness, at best, for the first half of 1981. The second half was supposed to see moderately brisk growth. As it turned out, the economy began the year with the largest quarterly gain in GNP in nearly three years and ended the year in recession.

—*Business Week*, Dec. 28, 1981

It could be worse; they could issue bonds

In Wisconsin, there is a state agency called the Solid Waste Recycling Authority. It was created for the purpose of issuing bonds for recycling projects. The agency has existed since 1973 and has spent \$1.5 million. It has yet to issue a bond.

—*Washington Monthly*, Jan. 1982

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