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# FREE MARKET FOR THE ENVIRONMENT

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## Abstract

The tragedy of the commons is responsible for many, if not all, of the environmental problems concerning natural resource preservation that we face in modern society. The tragedy of the commons describes a situation in which resources held “in common”, namely, public resources, are depleted or mistreated by collective action. Basically it means lack of private ownership and almost inevitably leads to a misallocation of resources. And yet, the predominating kinds of solutions proposed to solve these problems involve increased government regulation—effectively expanding the scope of the very tragedy of the commons which lies at the heart of the problem in the first place. The present paper advocates an alternative: free market environmentalism. It is not a contradiction in terms, despite how that phrase sounds to the modern ear. In this paper we attempt to demonstrate that *laissez-faire* capitalism is our last best hope for protecting the environment. Free market environmentalism centers around private property rights and thus a decentralization of environmental decision-making. Effective choices made about scarce resources must be based upon free market price signals and incentives. The lack of *laissez-faire* capitalism applied to earth’s natural resources distorts both of these indicators—causing poorly made and oftentimes destructive decisions. A free market solution to the environment creates the most value for society, allows for open and continuous entrepreneurial innovation, and economically empowers those who are the most environmentally vulnerable.

**Keywords:** free enterprise, private property rights, environment.

**JEL:** Q00.

## Introduction

“**W**hat is common to many is taken least care of, for all men have a greater regard for what is their own than for what they possess in common with others.” This insight was offered by Aristotle in the 4<sup>th</sup> century BC,<sup>1</sup> and indicates why the tragedy of the commons<sup>2</sup> is indeed a disaster: lack of private ownership almost inevitably leads to a misallocation of resources. The tragedy of the commons is responsible for many, if not all, of the environmental problems concerning natural resource preservation that we face in modern society. And yet, the predominating kinds of solutions proposed to solve these problems involve increased government regulation—effectively expanding the scope of the very tragedy of the commons which lies at the heart of the problem in the first place.

The present paper advocates an alternative: free market environmentalism. This centers around private property rights and thus a decentralization of environmental decision-making. Effective choices made about scarce resources must be based upon free market price signals and incentives. The lack of laissez-faire capitalism applied to earth’s natural resources distorts both of these indicators—causing poorly made and oftentimes destructive decisions. A free market solution to the environment creates the most value for society, allows for open and continuous entrepreneurial innovation, and economically empowers those who are the most environmentally vulnerable.

The burden of section 1 is to expound upon our claim that the profit and loss system is the last best hope for ecological soundness. In section 2 we turn our attention to private property rights. The burden of section 3 is to deal with underdeveloped countries and their relation to the environment. We conclude in section 4 with a discussion of pollution.

### 1. Profit and Loss

In matters of environmentalism, capitalistic endeavors that produce profits are widely thought of as evil polluters that can only do great harm. Condemning capitalism for the deterioration of the

<sup>1</sup> <https://www.coursehero.com/file/p1qo7e6h/T-27-Aristotle-writes-What-is-common-to-many-is-taken-least-care-of-for-all-men/>; <https://boardofwisdom.com/togo/Quotes/ShowQuote?msgid=165677#.W05bjdJKg2w>.

<sup>2</sup> The tragedy of the commons describes a situation in which resources held “in common”, namely, public resources, are depleted or mistreated by collective action. Their misuse is due to the lack of accountability of any one user in mistreatment, as well as the lack of assurance that the resource will still exist in the future. The solution to the tragedy of the commons is private property rights. For support of this contention see [Smith, 1981]. For a critique, see [Ostrom, 1990]. For a rejoinder to Ostrom, see Block W. E. 2011. Review Essay of Ostrom, Elinor. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge, UK and New York, NY: Cambridge University Press. *Libertarian Papers*, vol. 3, art. 21. <http://libertarianpapers.org/articles/2011/lp-3-21.pdf>; see also [Jankovic, Block, 2016].

environment suggests that the only way to preserve the planet is to regress to a lower standard of living. This, however, is not at all our fate. We can reconcile determination to preserve and protect natural resources with a desire for economic growth and continued prosperity. In fact, the two go hand in hand in the free market.<sup>3</sup> Voluntary exchanges inherently create wealth for society because they are voluntary: both buyer and seller believe that they are gaining something in the transaction, else they would not engage in the trade. These unobstructed commercial interactions channel resources, products and services to those who value them most. This is because they are the ones willing to pay the greatest amount, and there are no external forces, such as government interference, persuading or forcing the resources in another direction. When this trade involves natural resources, it opens up opportunities not afforded by state ownership. Richard Stroup<sup>4</sup> identifies three ways in which resource owners gain by trading: across uses, across space, and across time. Across uses allows individuals to direct their resources to their most valuable and productive activities—for example, “out of low-valued crops into ones that earn them more money.” Across space enables the resource to be put to its most highly valued use, regardless of geographic distance. For instance, moving the production of oranges from Maine to Florida. Finally, across time allows resource owners to gain from “conservation or speculation by saving resources until they become more valuable” [Stroup, 2016]. Being afforded the unrestricted option in the free market to make these kinds of decisions about natural resources allows for specific solutions to unfold.

There are a great variety of environmental problems across the world, and as such people should be free to have access to a great variety of solutions. Some are already playing out in the market. For example, in order to keep high-quality streams full of water and sustain fish populations, water markets have begun to develop. Farmers who have the right to divert stream water often use large amounts of it for their fields, and streams can dry up. To prevent this, some fishermen are willing to pay cash to lease the rights to the water from the farmers. This privately generated market shifts the water to a higher-valued use [Block, Nelson, 2015].

A market can also exist for garbage:

Consider a city that disposes of garbage in a landfill. If the city is located in an area where underground water lies near the surface, disposing of garbage is dangerous, and very costly measures would have to be taken to protect the water from contamination. Such a city may gain by finding a trading partner with more

<sup>3</sup> Not only is it true that “wealthier is healthier”, but it is also the case that the richer is a society, the more environmental amenities it can preserve.

<sup>4</sup> See [Stroup, 2016]. See also [Stroup, 1988], for a critique of the latter see [Block, 1990].

suitable land where a properly constructed landfill does not threaten to pollute water. Such a landowner may be willing to accept garbage in return for pay [Stroup, 2016].

Creative solutions such as these can be credited to the entrepreneur, or, in this case, “enviropreneur”.<sup>5</sup> He is most successful in the free market, where the profit and loss system is able to do its job and act as a filter. When entrepreneurs detect a profit opportunity, they invest. If successful, their profits attract other producers, and the consumer benefits from the increased competition that ensues as sellers compete for customer dollars. The only way in which they can earn more profits is by satisfying customer wants and needs. When entrepreneurs are free to invest in endeavors involving natural resources, it results in their responsible use, so as to reduce costs. It will also bring about their conservation because of the potential for future profits.<sup>6</sup> Through competition in the free market, those who succeed in putting resources to their most valued use are rewarded by profits, and those who fail are penalized by losses. Government decision-making receives none of these signals that profits and losses provide because they are not subject to such direct and impactful consumer assessment of their activities.<sup>7</sup> This is one of the reasons why government is unable to solve our environmental crises. Optimal solutions require the involvement of the private sectors and the trial and error involved in entrepreneurship. The way to enable such entrepreneurship to flourish is private property rights.<sup>8</sup>

## 2. Private Property Rights

For the market to function properly and reveal ideal environmental solutions, private property rights must not only exist, but also be defined, defensible, and divestible—what Stroup [Stroup, 2016] calls the “3-Ds”. Ownership must be proclaimed and ownership rights clearly defined, else a potential buyer will be unwilling to make a purchase, as uncertainty in this respect is highly problematic. Government regulation often creates this uncertainty concerning ownership and therefore causes not only a reduction of its value,<sup>9</sup> but also its misuse. For exam-

<sup>5</sup> As defined by PERC (the Property and Environment Research Center), the “enviropreneur” is: (1) an environmental entrepreneur; (2) an innovator who finds new ways to enhance environmental quality; (3) someone who resolves environmental conflicts using cooperation, property rights, and markets.

<sup>6</sup> The time horizon for businessmen is of course not infinite, but is indefinitely long. In contrast, that for politicians is usually limited to four or eight years, thanks to term limits.

<sup>7</sup> Politicians are indeed evaluated, but not on a day-by-day, minute-by-minute basis. Instead, it can take two, four or six years, in the case of senators. Also, these worthies are evaluated on many more than only environmental issues. Thus, the voter who wishes to register dissatisfaction with a member of the government is in a far worse position than a consumer unhappy with a commercial enterprise. In the latter case, the dollar “vote” is almost instantaneous.

<sup>8</sup> For a masterful analysis of entrepreneurship, see [Kirzner, 1973].

<sup>9</sup> See [De Soto, 1989].

ple, “water flowing in most streams in the United States has no owner, although the owners of property next to the water have a right to reasonable use of the water” [Stroup, 2016]. Also, no one directly owns wildlife, though state governments have some control over it. Both of these situations are subject to the tragedy of the commons.

There is also considerable confusion regarding the protection of habitat for endangered species under the Endangered Species Act, the results of which are often ineffective. This is exemplified when compared to the ventures of private citizens. After a successful career, Ted Turner—American media mogul and founder of CNN—began buying ranches across the West and Southwest of the United States and in South America. He currently owns approximately 2 million acres of personal and ranch land. Turner created his own endangered species fund, which has successfully removed two species from the endangered list by means of restoration on Turner’s private property.<sup>10</sup> This kind of protection is unmatched by efforts of government.

Once ownership is explicit, their rights must be defensible in the courts. This affords the owner protection against any physical harm to his property. Legal recourse enhances the longevity of the resource’s value. Finally, owners should be free to sell or lease their resource at will. This, again, increases wealth. The potential for profit provides strong incentive to properly preserve the resource—so that it may be fully appreciated by those who value it most. This may be the current owner, as is the case in the Ted Turner example, or it may be another user to whom the owner can sell or lease his rights. In either case, the rewards to the owner for the upkeep of the resource are the profits he will receive. The value added to the society that allows these kinds of ownership and transactions to materialize is that the resource is being put to its most valued use—as indicated by the economic decision-making on the part of its participants. The only way that members of the society can reveal what they want to these producers and entrepreneurs is through a free flow of information that exists only under *laissez-faire* capitalism.

The decisions governmental regulators make are not directed by this information because it has no way of reaching them [Hayek, 1937, 1945]. For this reason, their decisions are often directed by distorted signals and incentives, and by special interests<sup>11</sup>. This means

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<sup>10</sup> See the Turner Endangered Species Fund’s official website <http://tesf.org/> and also <https://www.undispatch.com/how-ted-turner-became-a-pathbreaking-environmentalist/>; <https://www.insidephilanthropy.com/glitzy-giving/ted-turner.html> and other sources.

<sup>11</sup> States Hayek: “Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge. But a little reflection will show that there is beyond question a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: the knowledge of the particular circumstances of time and place. It is with respect to this that practically every individual has some advantage over all others because he possesses unique information of which beneficial use might be made, but of which use can be made only if the decisions depending on it are left to him or are made with his active cooperation” [Hayek, 1945].

that the objectives of those with the greatest ability to influence public officials and regulators are often the ones pursued. The result is “regulatory capture.”<sup>12</sup> Regulatory agencies are meant to act in the “public interest”, but corruption and special dealings lead to these agencies becoming dominated by the very industries they were charged with regulating. In the end, they serve the interests of the corporations. Inefficient and unfounded regulations and laws do little to solve environmental problems; they even make them worse. An example of this is the failure of the “Superfund”<sup>13</sup>—“a trust fund administered by the Environmental Protection Agency to provide temporary emergency federal funding for the cleanup of chemical waste if responsible parties could not be found or were unable to pay.” Among a number of misdirected and unproductive undertakings, the Superfund wasted a great deal of money cleaning up the “Love Canal” chemical dump in New York. “A flawed and later discredited study” led to a crisis surrounding its cleanup. Later studies found there to be no real evidence of long-term health threats, but the damage was already done. “As is often the case when government legislates in ignorance, the law has been enormously costly and ineffective” [Burnett, 1996]. If it were instead the responsibility of a private enterprise to conduct the cleanup, there would have been a more thorough investigation of the circumstances since they would incur the costs of the cleanup themselves. The inevitable cost-benefit analysis that occurs in private decision-making would have produced an outcome considerate of the real effect on society. Government is essentially unaffected by money squandered in their uninformed decisions [Hazlitt, 1946].

In the realm of government regulation, often individuals or organizations make decisions differently than they would in the free market. They are forced to act in ways directed by the hand of government, and are limited in their endeavors by strict regulations. Those who succeed do so not by satisfying customers and utilizing resources at their highest value, but by effectively playing in the political arena. Rather than investing in their property and in innovation to increase profits, they focus on lobbyists to give them an advantage in the government-controlled market. This produces no value for society and does nothing to solve environmental problems. Conversely, free market exchanges not only direct producers to what society truly wants, but also provides them with the means to maximize wealth. Therefore, the discovery of

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<sup>12</sup> This is a form of government failure in which a regulatory agency advances the agenda of the industry it was charged with regulating, primarily due to the dominance of special interest groups. See on this [Stigler, 1971]. We regard as a preferable theory the one that demonstrates there was no “honeymoon” period, during which regulation achieved the public interest, but rather that the “capture” took place at the very outset of the regulatory system. See on this [Kolko, 1963; Rothbard, 2017].

<sup>13</sup> The Superfund was established as the “Comprehensive Environmental Response, Compensation, and Liability Act” of 1980, passed under President Carter.

environmental and natural resource solutions in the free market results in economic empowerment.

### 3. Underdeveloped Countries

Now that the foundations of free market environmentalism have been established, we turn to its effects on underdeveloped countries since many of these nations contain some of the world's most abundant and important natural resources. Due to their focus on developing economically, environmental concerns are often neglected, and there is substantial abuse of natural resources. However, it is very possible for these countries to simultaneously increase wealth while solving environmental problems. The key exists, of course, in the free market. Firstly, the indication is that economic growth (income per capita) increases most in nations that are the most economically free. James Gwartney et al. [Gwartney et al., 1996, 2017] demonstrated the existence of this causal connection. Further, nations that boost their income per capita subsequently increase their environmental quality. This is demonstrated by the "Environmental Kuznets Curve".<sup>14</sup> The original "Kuznets Curve" [Acemoglu, Robinson, 2002] is used to show a relationship between economic growth and income inequality. The curve has been adapted to describe the relationships between income and the environment. This "Environmental Kuznets Curve" indicates that in very poor nations, as income increases, environmental deterioration at first increases with it. However, at some turning point as income continues to increase, environmental improvement begins.

This relationship indicates that on a nation's path to development, there will be some environmental setbacks, but this is not a reflection of economic prosperity as a detriment to the environment. If this pattern holds true, it is a necessary progression, and the only way for a nation to attain ecological improvement. The reasons are clear. Once a country begins development and industrialization, environmental damage will occur due to greater natural resource use and the relatively dirty and inefficient technology that exists in these early stages. However, "as economic growth continues and life expectancies increase, cleaner water, improved air quality, and a generally cleaner habitat become more valuable as people make choices at the margin about how to spend their income" [Yandle et al., 2002]. The country is able to move further out on its production possibilities curve. People's priorities will not shift to a concern for environmental quality until they reach an income level

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<sup>14</sup> See Pettinger T. Environmental Kuznets Curve. September 11, 2017. <https://www.economicshelp.org/blog/14337/environment/environmental-kuznets-curve/>; Stern D. I. The Environmental Kuznets Curve, International Society for Ecological Economics, June 2003. <http://isecoeco.org/pdf/stern.pdf>.



that allows them that option. Once that level is reached, entrepreneurial innovation creates cleaner technology and a continued elevation of environmental quality and rectification of past environmental problems. But the increase in income alone will not allow this: also required are capitalist economic institutions. The free market not only facilitates this wealth effect but, along with property rights, it also continues to guide optimal environmental decision-making after the nation reaches the turning point.

As evidenced by the failure of government policy and the innovative success of private enterprise, it is clear that the free market produces optimal decisions regarding natural resource use. These principles can be applied to natural resource abundant developing nations to accelerate economic and environmental improvement.

#### 4. Pollution

The free enterprise system is all too often blamed for pollution. Corporate greed is the charge launched against the marketplace for this problem. But this criticism is without merit. Instead, a quite different analysis is the correct one. In the 1830s and 1840s in the U.S., there was a spate of environmental pollution court cases.<sup>15</sup> Typically, a housewife would complain that a factory had dirtied the washing hung on her clothesline. Or, a farmer was the plaintiff and a railroad the defendant. The charge was that sparks from the latter caused the former's haystacks to burn. Was the complainant always successful? Not at all. But, when the evidence was sufficient, the courts were open to complaints of this sort, and typically awarded financial damages and an injunction.<sup>16</sup> This had several salutary effects. The railroad was led by an "invisible hand" to implement spark and smoke prevention devices. The factory, via the same considerations, substituted cleaner burning, but more expensive anthracite coal for the dirtier burning, but cheaper sulfur variety. Environmental forensics was born since it now behooved the forces of justice to determine, as precisely as possible, from whence sprang the environmental trespass.

But then, unhappily for economic liberty, toward the end of the 19<sup>th</sup> century, and the beginning of the 20<sup>th</sup>, a sea change overcame the judicial system. The message emanating from the bench was in the direction of, "Sure the defendant has violated your private property rights, your stinking, lousy, selfish private property rights. But, the public good (Drum roll, please!) demands that they be violated." Why the 180 degree alteration? At that time in our history, the U.S. government was attempting to overcome Great Britain as the number one military

<sup>15</sup> They were then referred to as nuisance lawsuits.

<sup>16</sup> For more on this see [Horwitz, 1977; Rothbard, 1982].

power in the world. This cannot be attained by placing the interests of housewives and small farmers ahead of railroads and steel mills. The government did offer a sop to the victims of smoke pollution: minimum smokestack height regulations. Thus, the problem was hidden, not under the rug, but in the clouds. The moral of the story is that pollution is by no means a market failure. Rather, it was due to the blunder of government, in turning against its self-styled role as protector of private property rights.

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