

EDITORIAL: ENVIRONMENTAL POLICY — PRIVATE CHOICE OR PUBLIC CHOICE?

Richard Wellings

Policy-makers tend to assume that environmental problems can only be solved by state intervention. They are viewed as instances of 'market failure' (e.g. Stern, 2007). Pollution represents a negative 'externality' which imposes costs on third parties, while some environmental goods (such as sea fish stocks) are 'common pool resources' with incentives for individuals to overexploit them. According to mainstream welfare economics, when polluters do not pay the full costs of their emissions, they are incentivised to overproduce pollution. Governments can therefore reduce emissions by imposing a tax on the polluter. Alternatively, policy-makers may decide to address a pollution problem by limiting emissions to the 'socially optimum' level through the imposition of a cap. A further policy option is to try and control polluting activities through regulation, perhaps phasing out certain environmentally damaging substances. Policy-makers may also engage in direct intervention by centrally directing industries, subsidising green technologies and so on. In practice, a patchwork of interventions is typically deployed to address pollution problems. For example, in the case of climate change, governments have combined tax measures, cap and trade schemes, regulations, subsidies and the central direction of energy and transport sectors. There are parallel approaches to environmental problems associated with common pool resources. Damaging activities can be taxed to bring their level down to the 'optimum'. More commonly, quotas and permit systems are introduced to limit access to the resource (e.g. tradable quota systems for fish stocks). States may also nationalise common pool resources in order to govern their use through direct command and control mechanisms.

Austrian economics exposes fundamental difficulties with the policy approaches detailed above. In particular, individual valuations are necessarily *subjective* – one person will value clean air or a beautiful landscape differently than someone else. In order to arrive at a 'socially optimum' environmental outcome, such as the ideal concentration of greenhouse gases in the atmosphere, officials would

somehow have to aggregate the changing subjective preferences of all the individuals affected in order to determine an appropriate policy objective. Policy-makers therefore face an insurmountable 'knowledge problem' since they do not have access to the dispersed and subjective, time- and place-specific information held by individuals (Hayek, 1945). This applies both to the setting of environmental policy targets and the policies imposed in the attempt to meet those targets. And in practical terms it is exacerbated still further by the scientific uncertainty surrounding environmental issues such as climate change.

Public choice and government failure

A further set of problems associated with government environment policies are identified by public choice theory, which focuses on the incentives facing actors in the policy-making process and the strategies employed by them. Senior officials, for example, may pursue strategies to increase their salaries, maximise their department's budget (Niskanen, 1971), or raise their status within government (Dunleavy, 1991). Environmentalism has presented high-ranking bureaucrats with numerous opportunities to expand budgets and initiate policies that bring with them prestigious new roles and responsibilities. Small, concentrated interests such as this are more likely to engage in lobbying than large dispersed groups (Olson, 1965). Special interests engage in 'rent-seeking' behaviour, using government to redistribute resources to them from dispersed groups such as taxpayers or consumers (see Tullock, 1967). Indeed, interest groups are often successful at capturing the policy process (see Stigler, 1971). For example, large firms may persuade decision-makers to impose environmental regulations that protect them from competition. The various forms of rent seeking mean that the policy process is highly inefficient at translating individual preferences into policy outcomes. Moreover, electorates can only vote every few years on a whole bundle of proposed measures. Public choice

theory therefore identifies several further reasons to expect 'government failure' in environmental policy, in addition to the knowledge problem discussed above.

The benefits of private property and markets

In contrast to state action, market-based institutions have a number of advantages when it comes to addressing environmental problems. Markets are capable of using the dispersed and subjective knowledge held by individuals, information about changing preferences being transmitted in the form of market prices (Hayek, 1945). This makes them more efficient at allocating resources.

The groundbreaking work of Coase (1960) provides key insights into how market exchange and private property can deal with environmental problems. Under certain conditions, property owners can negotiate efficient solutions – government does not have to get involved. For example, if a factory owner wished to pollute surrounding land, he could agree a contract to compensate adjacent landowners. Such agreements rely, however, on affordable transaction costs. If the process of negotiating and contracting proved too costly, parties in dispute would have no incentive to attempt such a solution. A further condition is the existence of property rights. Unfortunately some environmental problems are very complex, involving large numbers of affected parties and prohibitive transaction costs. Moreover, property rights may be absent.

This does not mean, however, that state-led solutions are necessarily the answer. Ostrom (1990) has shown how non-state institutions, often based around local communities, can successfully manage common pool resources such as fisheries, grazing land and forests. And clearly, private communities are well placed to deal with a range of local and regional environmental problems such as some forms of air pollution, conservation and so on. Environmental goods may form part of the package that private communities use to market themselves to prospective residents. The market process thereby matches the supply of environmental goods to the subjective wants of consumers. Strong private property rights are therefore essential to the efficient solution of environmental problems. This may suggest a role for government, in restoring or creating property rights (which have often been destroyed through the nationalisation of land etc.).

Despite their many advantages, it is not obvious that free markets based on strong property rights can provide comprehensive solutions to complex global problems such as climate change. Yet with government failure a likely outcome of any policy initiative, it may well be the case that the costs of state action exceed the benefits in such instances. This symposium provides strong evidence that government failure is leading to environmental policies that are imposing substantial economic costs while failing to achieve their objectives. At the same time, there is strong support for the contention that under certain conditions non-governmental institutions can provide effective solutions.

The first paper, by Gordon Brady, examines the development of climate change legislation in the USA, and in particular the plans for a cap and trade scheme. The role of

special interests in pushing for the costly legislation is very clear. The second piece, by David Campbell and Matthias Klaes, also looks at climate change policy, but this time at international level. They provide strong evidence that the international agreements have completely failed to meet their objectives and indeed may have proven counterproductive.

The remaining three case studies examine more localised environmental problems. The first, by Karol Boudreaux and Fred Nelson, examines conservation policy in Namibia. It is largely a success story. The transfer of property rights from the national government to local, community-based institutions has greatly improved the management of resources as local people now have a direct stake in conservation. By contrast, Debnarayan Sarker's study shows that attempts to grant property rights to India's forest dwellers have been far less successful. Well-meaning legislation has been undermined at implementation stage by a mixture of corruption, bureaucratic incompetence and obstructive special interests. The creation of institutions is clearly not immune to the knowledge problems and interest group pressures faced by other political/bureaucratic initiatives. This suggests that institutions evolving 'bottom-up' at community level, and based on local knowledge of conditions, may be more effective than those imposed 'top-down' by government. The final paper, by Claudio Tagliapietra, examines two examples of non-governmental natural resource management from Italy. Community-level institutions evolved rules that successfully conserved resources for several hundred years.

This symposium adds to the evidence that policy-makers should reconsider the assumption that governments are best placed to deal with environmental problems. The private sector's ability to use dispersed, local knowledge, enables it not just to allocate resources efficiently but also to discover the most appropriate institutions for environmental management. By eroding the property rights and free markets that are the building blocks of such institutions, centralised, state-led environmental policies threaten to crowd out effective private solutions to environmental problems that do not compromise individual freedom or economic prosperity.

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Richard Wellings is Deputy Editorial Director at the Institute of Economic Affairs (rwellings@iea.org.uk).