ENVIRONMENTAL MARKETS: EQUITY AND EFFICIENCY. BY GRACIELA CHICHILNISKY AND GEOFFREY HEAL. NEW YORK: COLUMBIA UNIVERSITY PRESS, 2000.

We live in an age of obfuscation, much of it purposeful. The word "liberal" has been hijacked, and now denotes what used to be called "socialist." Coase and the Coasians have converted "property" from something elemental and a basic building block of the free society into a plaything of activist courts, judges, and other juridical central planners (Block 1977, pp. 111–15; 1995, pp. 61–126) "Social justice" connotes not justice when applied to social issues, as the appellation implies, but rather egalitarianism and socialism. Moving closer to the environment, the topic of this book, "environmentalism," indicates opposition to markets and property rights, and an adherence to government control over the economy, usually at the level of a world government. Seemingly, "free market environmentalism" is a veritable contradiction in terms (Anderson and Hill 1981; Anderson and Leal 1991).[1]

The book by Chichilnisky and Heal (hence, CH) can be found squarely in this tradition of misusing words in order to promote a dirigiste agenda. They attempt to do for "markets" what the others have done for "liberal," "property," "social justice," and "environmentalism."As editors of *Environmental Markets: Equity and Efficiency*, CH begin the introduction to their book as follows:

> Markets are among the oldest and most powerful of social institutions. They are a dominant force in the world economy today and in many ways a force for change and progress. Market economies have led the race for industrialization, overcoming planned economies and traditional agricultural societies during the course of the twentieth century. The most attractive feature of markets is the efficiency with which they allocate resources, requiring minimal intervention once an appropriate legal infrastructure is in place. This was Adam Smith's vision of the "invisible hand" and was formalized in the neoclassical theory of competitive markets that has prevailed in the Anglo-Saxon world since the 1950s. (p. 1)

One would think, were CH not intellectual hijackers, that these words would introduce a book dedicated to exploring, elaborating upon, and extolling the virtues of, markets. With this paean to markets, they have seemingly established their credentials as

[1]Two think tanks which specialize in free market environmentalism are the Political Economy Research Center (perc@perc.org), and the Competitive Enterprise Institute (www.cei.org).

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advocates of this system,[2] and are now ready to do just that. Instead, they promote market socialism (Lange and Taylor 1938; Hayek 1954, 1948; and Hoppe 1989). The economic system they favor is exemplified in Tito's Yugoslavia, not the market capitalism of Adam Smith.[3] And the particular version of market socialism advocated by CH and the other contributors to their volume is a defense of tradeable emissions rights (TERs).

Let us begin our analysis by making the distinction between free markets in their pure, *laissez faire* or capitalist dimension, on the one hand, and market socialism on the other. Markets for the libertarian[4] are at the very core of this philosophical perspective. Free markets are based upon legitimately owned private property (Hoppe 1989, 1993; Rothbard 1978, 1982). For example, I buy a newspaper for $.50. Or you hire me to wash your car. Assuming no prior theft, e.g., legitimate property titles on all sides, these are instances of free-market activity.

In contrast, in very sharp contrast indeed, if *X* hires *Y* to murder *Z*, this is not part of the free enterprise system, since murder is the unjustified taking of life. We may loosely speak of this as murder for hire, or Murder, Inc., or a market for murder, but no matter what the nomenclature, such an act should not be confused with a pure free market, based upon legitimately held property titles. This is because neither *X*, nor *Y*, but only *Z*, holds proper title to the life of the latter. *X* and *Y*, in plotting to do away with *Z*, are in effect in the process of stealing *Z*'s life from him.

If this is true for murder, it is also true for other, lesser, rights violations, such as explicit theft. A "market" in stolen televisions sets, right off the back of the truck, for example, may have many of the attributes of a free-enterprise interaction, but it is lacking in one crucial element, the legitimacy of the titles to the property being bought and sold.

Similarly, "markets" for school vouchers are illegitimate in that they "are futures markets in stolen property." The funds to finance this version of public education are mulcted from taxpayers against their will, e.g., stolen. As well, individual transferable quotas (ITQs) are also illegitimate in this sense, in that they are "rights" to fish based on essentially unowned, e.g., non-homesteaded, values.[5]

What of TERs, the subject of the CH book? Here is how Anderson (1990, p. 19) deals with the claim that it is legitimate to charge for garbage disposal, and that these "rights" can be traded in markets:

> Fortunately, there is a simple, effective approach available (to the problem of garbage disposal)—long appreciated but underused. An approach based solidly on . . . private property rights.

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[2]Even here, however, they qualify their attachment to this system in two ways. First, markets are only "in many ways" a force for good, not in all ways. Second, even with a "legal infrastructure . . . in place" there is still the need for minimal intervention by government. Thus, these authors do not advocate laissez-faire capitalism even at the outset.

[3]Smith is widely seen as the father of laissez faire capitalism. This is clearly the role he plays in the quote from CH. However, Smith, too, engages in a bit of intellectual kidnaping. See on this, Rothbard (1995).

[4]This word, too is in danger of capture by people such as Hayek and Friedman, but at least thus far has not met this fate. See on this (Block 1996 and 1999).

[5]On homesteading, see Hoppe (1989, 1993) and Rothbard (1978, 1982).

> At its root all pollution is garbage disposal in one form or another. The essence of the problem is that our laws and the administration of justice have not kept up with the refuse produced by the exploding growth of industry, technology and science.
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> If you took a bag of garbage and dropped it on your neighbor's lawn, we all know what would happen. Your neighbor would call the police and you would soon find out that the disposal of your garbage is your responsibility, and that it must be done in a way that does not violate anyone else's property rights.
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> But if you took that same bag of garbage and burned it in a backyard incinerator, letting the sooty ash drift over the neighborhood, the problem gets more complicated. The violation of property rights is clear, but protecting them is more difficult. And when the garbage is invisible to the naked eye, as much air and water pollution is, the problem often seems insurmountable.
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> We have tried many remedies in the past. We have tried to dissuade polluters with fines, with government programs whereby all pay to clean up the garbage produced by the few, with a myriad of detailed regulations to control the degree of pollution. Now some even seriously propose that we should have economic incentives to charge polluters a fee for polluting—and the more they pollute the more they pay. But that is just like taxing burglars as an economic incentive to deter people from stealing your property, and just as unconscionable.
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> The only effective way to eliminate serious pollution is to treat it exactly for what it is—garbage. Just as one does not have the right to drop a bag of garbage on his neighbor's lawn, so does one not have the right to place any garbage in the air or the water or the earth, if it in any way violates the property rights of others.
>
> What we need are tougher clearer environmental laws that are enforced—not with economic incentives but with jail terms.
>
> What the strict application of the idea of private property rights will do is to increase the cost of garbage disposal. That increased cost will be reflected in a higher cost for the products and services that resulted from the process that produced the garbage. And that is how it should be. Much of the cost of disposing of waste material is already incorporated in the price of the goods and services produced. All of it should be. Then only those who benefit from the garbage made will pay for its disposal. (Anderson 1989)

To put this into the language we have so far established, "markets" in pollution are illegitimate, not because particles launched into the air are "stolen," but because they are illicit in yet another way: they violate property rights not through theft, but as trespass. Given, then, that there is no "right" to emit dust particles onto the property of other people, there can be no legitimate market in the purchase and sale of such "rights." This means that TERs are a veritable contradiction in terms.

With this introduction as background, we are now ready to consider the specific contributions to this volume. Chapter 2, written by the editors, makes the case that TERs (buying and selling necessarily invalid "rights" to trespass dust particles onto other people's property) are more efficient than taxing (charging a fee for engaging in these same essentially criminal acts).

But this is problematic.

First of all, no such conclusion can be drawn without violating the stricture against interpersonal comparisons of utility. This is like debating whether death by fire or electrocution is more fatal. Second, even if it could somehow be demonstrated that TERs are more efficient than taxes, it by no means follows that the former are preferable. After all, when government is violating property rights, it is unclear that doing this efficiently is to be desired. Perhaps the very opposite is the case.

Chapter 3 is fatally flawed by its reliance on the invalid concept of "public goods" (Hummel 1990), in this case, the quality of the atmosphere of the planet. A pure public good is something from which people cannot be prevented from enjoying without paying for it (nonexcludability) and something for which they do not compete against one another (nonrivalrousness). But to put matters thus is perverse. It is the government, not the market, which refuses to uphold the law against trespass (Horwitz 1977; Rothbard 1990) which would enable property owners to enjoy invasion-free air. To call upon the apparatus of the state to make good for its own malfeasance, under the guise of correcting so-called market failure, is to add insult to injury. It is not a matter of refusing to pay for a benefit (clean air) which others could enjoy at no cost to anyone (nonrivalrousness). Rather, it is a matter of protecting property rights, a concept alien to all the contributors to this volume.

Chapter 4 addresses the question of "should the marginal costs of emission abatement be equalized across countries?" (p. 68). It is thus necessarily predicated on the notion that marginal costs can be measured by third parties (governments, or, in this case, a world government). But costs, whether average, marginal or total, are essentially subjective (Buchanan and Thirlby 1981; Buchanan 1969; Mises 1966; Rothbard 1993). That is, they are a measure of the evaluation that the economic actor places on the next best (to him!) opportunity forgone by engaging in any specific act. As such, not only can this value not be quantified,[6] it certainly is not available to outside-observer third (government) parties. Given this, the goal of this chapter is compromised by its reliance upon such supposedly objective costs.

In Chapter 5, written by Geoffrey Heal and Yun Lin, the authors claim that global warming is caused by industry, not natural processes, and is harmful.[7] Neither of these findings is supported by the overwhelming majority of any peer reviewed survey of the relevant experts; both are thus outside the competence of economists, such as these authors. They also (p. 83) credit Coase with the authorship of TERs, a dubious claim in the history of economic thought. Their main focus concerns the trading of emission permits on an international level, something about which great importance cannot be placed, given the grave difficulties with the concept itself, in any geographical context.

Similarly, Chapter 6 analyzes the case where polluters are first given a proportionate share in the "right" to engage in this activity, and only later told the total allowable amount for society as a whole, and hence their own specific allotment. Having rejected the entire scheme, this variant can only be of little interest.

Chapter 7 addresses itself to the question of which countries, developed or undeveloped,[8] should be called upon to undertake which amounts of abatement costs. In the view of the authors, "the richer countries should spend proportionately more than the poorer nations" (p. 9). This would appear to undercut their own claim that

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[6]It admits of ordinal, not cardinal values.

[7]For a critique of the latter claim, see Moore (1998).

[8]The authors characterize the latter as "developing," a triumph of hope over reality.

industrialization is responsible for the problem. For why should a rich but agrarian country pay more than a poor one with many dirty factories?

Chapter 8 is devoted to the question of whether to impose "differentiated or uniform international carbon taxes" (p. 135)? For an opponent of all taxes, certainly including those on carbon, this is another issue of singular unimportance. This pertains, as well, to Chapter 9, wherein the authors consider a model "in which the consumer's utilities do not depend upon the quality of the environment" (p. 10), forsooth.

Chapter 10 is potentially of the greatest interest to the readers of this journal in that it discusses privatization. Its authors approvingly cite a magnificent statement from E.O. Wilson (pp. 169–70), who mentions "the need to draw more income from the wildlands without killing them, and so to give the invisible hand of free market economics a green thumb." Here, "markets" are being used correctly, not to depict trade and ownership of illegitimate property titles. With the deletion of the single word "more" in this statement, the authors have come close to depicting the essence of free-market environmentalism. And the amenity to be privatized in this case? A Catskill Mountain watershed, which supplies New York City.

True, the authors have in mind not at all full privatization of this resource, but rather a contracting out scheme whereby the public authority still retains overall ownership, ceding to the private "owner" only a portion of the savings thereby derived. And, also, TERs raise their ugly heads in this plan. But of all the chapters in the book this one at least raises the specter of privatization, and no chapter can be all bad which at least mentions this magnificent quote from Wilson.

Chapter 11 returns us to that same old lemonade stand. Here, using the so-called free-enterprise models of the World Bank (WB), the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT), Chichilnisky and Heal introduce their environmental counterpart: the International Bank for Environmental Settlements (IBES). This would do for the environment what these other institutions have done for trade and welfare on a world scale, e.g., peddle socialist nostrums. Specifically, the IBES would add to the usual concerns of these authors for "efficiency" an entirely new one, "equity." And of what does this latter concept consist? Surprise, surprise, it involves "A preferential treatment of lower income nations" regarding the requirement "to abate carbon emissions" (p. 182). Enough said.

Chapter 12. No left-wing environmentalist treatment[9] would be complete without a glowing mention of the Kyoto Protocol, and this book is no exception to that general rule. Why is the Kyoto Protocol so wonderful? For one thing, like the WB, the IMF, the GATT and IBES, it is a move in the direction from decentralized national sovereignty to world government. No central planning bureaucrat worthy of his salt could resist. For another, this exercise in busybodiness involves the Holy Grail of interventionist environmentalism meddling on a world scale. Third, TERs are a centerpiece of the agreement. Fourth, it supports the equally objectionable United Nations Framework Convention on Climate Change. What more is needed to warm the hearts of interventionists everywhere? But in case this is insufficient, Chapter 14 offers the reader in a mercifully short few pages—far more than he wants or needs to know—about Kyoto.

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[9]This school of thought is properly characterized as "watermelons": green on the outside, red on the inside.

Chapter 13 relies for its main mode of "analysis" the concept of "privately produced public goods."[10] This is a total confusion. Let us review the neoclassical economics[11] upon which this book is supposedly predicated. Public goods (nonexcludable, nonrivalrous) are presumed to be a *market failure*. This means, if it means anything at all, that private individuals, acting out of their own self-interest, are not able to produce them, at least not in sufficient quantity. That is why the it is a market failure in the first place. This implies[12] that governments must step in, so as to cure the "failure" of the market, and provide the goods for which the consumers are presumably clamoring, but in vain, due to this self-same "failure." What can it mean, then, to assert there is such a thing as a "privately produced public good?" This is as close to a downright contradiction in terms as you are ever likely to meet up with in a neoclassical economic tract.

In other words, CH state that the problem of air pollution consists of the fact that good, "clean air" is a public good, and that the market will not produce enough of it. But this is a misbegotten way of looking at the problem. Air, whether clean or unclean, is not an economic good.[13] There is simply too much of it around. Rather, a proper analysis focuses on the trespass of particles onto the property (e.g., lungs, laundry hanging out to dry) of other people.

A similar analysis applies to the economics of information, also misanalyzed by the authors of this chapter. In their view, this, too, is a "privately produced public good." Nothing could be further from the truth. On the contrary, knowledge, once it is widely known, is not an economic good at all. Once produced, the use of it by another person does not at all detract from the use of it by its creator. Therefore, since it is not a (scarce) good at all, it cannot be owned.[14]

To conclude. I don't mind it, so much, that a bunch of socialists have proposed some new convoluted environmental schemes. But I do mind it, very much, that in this effort they would choose to march under the banners of private property, economic freedom, and free markets. They must be exposed for the central planners they are, and cannot be allowed to get away with what is, in effect, fraudulent advertising.

WALTER BLOCK
Loyola University New Orleans

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[10]This is utilized all throughout the book, but I haven't been able to force myself to confront it until this point.

[11] For a good statement of this philosophy, see Reder (1999).

[12]If you smuggle in normative premises, that is. See on this Rothbard (1973).

[13]At least so far. On the moon, or on a submarine, air, of course, does become an economic good since it is *scarce* in those contexts.

[14]See on this the pathbreaking article, Kinsella (2001).

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