The Return of Investment in Nature
By Anne-Mieke Minderhoud

In 1999, a blueprint was presented in the USA for auctioning off all public lands: a total of 630 million acres equal to one-third of the country’s land area. The proposal included famous landmarks, such as the Grand Canyon and Yellowstone National Park, to be divided up into tracts. Each tract would have a corresponding set of property rights designed as freely transferable certificates. These certificates could then be sold to the highest bidder, introducing a stock market in public land shares (Anderson et al. 1999).

Although the proposal might sound radical, tradeable permits are already being used in the context of fisheries management: Individual Transferable Quotas (ITQs), tradeable between vessels, provide fishermen with long-term rights to harvest up to a given quota of the fish stock (The Economist 18 September 2008). Another example is the European Union's emission trading scheme through which energy-intensive companies can buy and sell permits that allow them to emit CO₂ into the atmosphere. Companies that exceed their individual limit can buy unused permits from firms that have taken steps to cut their emissions (BBC News 1 June 2007).

ITQs, forest certificates and other 'cap and trade' schemes use market mechanisms to solve what is known as the 'Tragedy of the Commons'. This tragedy describes the fate of publicly available natural resources as well as its users when these type of common goods are left unregulated. With people having a tendency to 'discount the future' (Zimmerman 2000:104) and to selfishly exploit air, seas, and forests for short-term private gain - thus neglecting the interest of future generations (Eckersley 1993) -, the relentless exploitation of these commons could bring 'ruin to all' (Hardin 1968 in Carter 2001:42). To put this into a contemporary global context, according to World Wildlife Fund, if we sustain our current lifestyles, we will be in need of 'two planets' within one generation (WWF 2008).

Regulation of the commons is therefore in both nature’s and human interest. But the question is how and by whom? The manner by which environmental problems are understood and acted upon is often highly coloured by one’s ideology. This essay discusses how in particular the popular notion of liberalism and ‘free market’ economics looks at environmental problems and their subsequent solutions. I will discuss how dominant liberal beliefs on subjects such as (1) the law of property, (2) the magic of the market, (3) the role of the state, and (4) the rational nature of man interact with environmental issues and policy.
Liberalist philosophy originated in 17th century Europe. Characterised by a strong sense of individualism, religious tolerance, an emphasis on reason, appraisal of commerce and industry, and a deep respect for property rights, it has shaped the make up of many (western) societies since then.

Although the notion of scarce resources did not exist back then, the same respect for property underlines what is the more contemporary (neo-)liberal solution to the problem of ‘the Commons’: nobody owns them. Having a personal stake in natural resources is argued to discipline the individual owner’s decision to extract the resource or not (Anderson et al. 1999). In the case of fishing quotas, fishermen have an interest in good management and conservation because this increases the value of their fishery and of their share in it (The Economist 18 September 2008).

The underlying problem to for instance the conservation of a national park is that there is no relation between the economic value of the experience of touring a park and the actual price charged for entering the park. If we consider the principle of a free market then a person who prefers animals or habitats to be protected should pay for such protection (Zimmerman 2000). Environmental problems are thus understood as market failures as nature has been provided for at zero-price or too low a price (Eckersley 1993). The market price does not include the external costs of using them.

This idea seems to have become adopted by a group of environmentalists and economists who acknowledge the advantage of turning nature into a ‘marketplace’ because it might mean that destroying nature will no longer be profitable, but protecting it will. As argued by Gordon Shepherd, International Policy Director WWF: if natural landscapes are being valued as highly profitable businesses, they will no longer be perceived as ‘the world’s free garbage dump’ (Der Spiegel 23 May 2008). Ecological economists like Robert Constanza have tried to put a price on nature. In 1997 he estimated the annual value of the services nature provides mankind to amount to $33 trillion. At the time, this was comparable to 1.8 times the world’s gross national product (Der Spiegel 23 May 2008).

But determining the right price for nature to become protected, is far from straightforward. If eg. the price of emissions is set too low, companies will avoid the installation of expensive new sustainable technologies and keep on trading as before as this will meet climate protection requirements easier and cheaper (Carter 2001). In a market setting nature’s value can only be revealed through the act of buying and selling (Eckersley 1993). But this focuses on the economic value of ecosystems, thereby ruling out those parts in nature that is either not valued as profitable or can in fact present a threat to humanity. Ecologists therefore argue that a marketplace only enhances ‘human chauvinism’ because it treats nature as a ‘store-house of resources’ - only there to satisfy human needs and ends (Carter 2001:15-16). A marketplace is not capable of pricing nature beyond nature’s mere...
instrumental value. As natural resources often have competing uses, it is very likely that whichever is of most use or economic benefit wins. Today, global markets still put a higher value on dead forests than living forests (*Der Spiegel* 23 May 2008).

'Where there is no property, there is no justice'?¹

The principle of a marketplace of tradeable rights, such as the right to log or pollute, means that these rights are being auctioned off to the highest bidder (Anderson *et al.* 1999). This, however, can grant decision-making power over environmental quality or conservation to those most able to pay for it (Beder 2001) and as such raises the question who benefits from the justice these property rights claim to seek.

There is a stark contrast between a libertarian and environmentalist definition of justice and injustice. The former is based on *entitlements*, the right of property with a focus on the legal protection of that right, the latter is based on *equity*, a notion of social justice with a focus on *equal distribution* of rights amongst human beings (Carter 2001). A free market is not directly concerned with distributive justice. Distribution is argued to arise through the so-called 'trickle down' effect: acquired riches by the few will over time trickle down to the masses and as such improve human progress and prosperity for all. But history shows that this effect has been very limited. It has effectively resulted in an ever increasing ‘gap between propertied and the propertyless, rich and poor, developed and underdeveloped nations’ (Eckersley 1993:15). The inappropriateness of using ownership as a just mode for distribution was already visible in Locke’s day. When a movement to enclose the commons took hold in 17th century England, this denied rural labourers their up to then habitual right to use a considerable part of the food they raised for private consumption. With each enclosure requiring an Act of Parliament and with both Houses of Parliament being controlled by the elite, the latter used their legislative power to enrich themselves to the detriment of the rural labourers. The result was large-scale famines (Russell 1946).

Who then should be the rightful *owner* of nature and its assets? Government, the investor or the people who live in it? A major problem with tradeable rights is, that eg. lands, waters or forests need to be divided up into individual tracts with individual owners. But this ignores the fact that ecosystems and environmental issues are indivisible and do not easily or desirably give rise to *exclusive* rights of use (Eckersley 1992). They do not abide by borders, whether these have been defined based on property ownership or indeed nation-states. Many environmental problems ‘cannot be resolved by addressing individual parts in isolation’ as one solution may have ‘unintended and damaging consequences elsewhere’ (Carter 2001:165).

---

¹ This was stated by John Locke (1632 – 1704), one of the most influential liberal philosophers (Russell 1946).
Can and Should the Market Sort the Environment Out?

Whereas strong (neo-)liberal calls are being made for the ‘free market’ to deal with environmental issues, ecologists strongly oppose using the market mechanism as nature’s solution provider. They believe that it is the very market, the capitalist economy, that is to blame for the environmental crisis. The worldwide emphasis on economic efficiency from economies of scale and the global expansion of the distribution chain, both part of the drive to industrialise and globalise, have led to a massive consumption, depletion and pollution of natural resources.

Two principles, key to the free market, go against the nature of environmental problems: the ceteris paribus foundation of popular economic theory and the promotion of continuous economic growth. First, classic economic theory establishes economic models using the principle of ceteris paribus. This means that predictions about potential outcomes in relation to a cause and its effects are made whilst ruling out the possibility of factors that might interfere or override this relationship. Many economic theories are therefore based on perfect laboratory conditions which makes them blind to the interrelationship between the scale of the economy and the scale of ecosystem. An economy is not a closed but should rightfully be seen as ‘an open system’: in order to function an economy must extract resources from the environment and dispose of large amounts of waste back into the environment (Munda 1997: 214).

Second, the notion of continuous economic growth sits uncomfortably alongside the fact of a not continuously growing planet. Growth is perceived the engine of human progress: growth rates are regarded important indicators of a country's or a company's economic health. But once one views the economy as an open system the issue of its relation to the environment cannot be avoided. If the economy can grow indefinitely then so should the ecosystem. But until the surface of the earth begins to grow at a rate equal to economic growth (Constanza et al. 1997:34), ‘we are acting ecologically in the same way as financial institutions have been behaving economically – seeking immediate gratification without due regard for the consequences’ (Jonathan Loh of the Zoological Society of London - Reuters 29 October 2008). To consider nature as a gratis means to an end and as an unlimited pool of resources is unrealistic.

Or the State?

This could make a case for the involvement of government and an increase in government regulation. But government regulations are considered undesirable by (neo-) liberals and free market advocates. Regulations impede on individual freedom of choice and interfere with the internal dynamic of the market. Governing authorities are important in setting up ITQs and policing them, but according to free marketeers should leave the
management of public goods to private persons or enterprises. Someone with a personal stake in the environmental asset will be better informed about the immediate consequences of his or her actions as an individual property holder than the ‘ineffectively managing civil servant’. The latter is considered too ‘far removed from the actual cost and benefits associated with their actions’ and works within an ‘accountability vacuum’ (Anderson et al. 1999). The EU’s emissions trading system is experiencing teething problems. According to WWF, the Conservatives and the Liberal Democrats in the UK, this is because the permits were given out by government and not auctioned. They state that ‘the problem will not be sorted out until the market is made to work properly by forcing firms to bid for their permits instead of being allowed to lobby government for them free of charge” (BBC News 1 May 2006).

Government involvement, it is furthermore critiqued, will politicise environmental problems and can result in an undemocratic elite group of planners deciding what is right for society (Eckersley 1992). This cannot only lead to the pursuit of political outcomes ‘on the back’ of the environment, it can also jeopardise democratic principles and freedoms. By limiting the role of government and maximising the role of the market this politicisation can be avoided. But the economy does not run separately from politics. Democratically elected politicians always tend to take considerable account of producer interests because the overall performance of the economy is likely to influence a government's popularity and hence its chances in re-election. It will be a lot harder to introduce a vehicle ownership quota system designed to limit the growth of automobiles in a democratic environment than in a non-democratic environment such as Singapore. Here, anyone who wishes to own a vehicle must have a certificate of entitlement (COE) which gives you the right to own a vehicle. These certificates can be bid upon. By mid 1992, the COE price for a standard car had risen by more than 60 per cent since its introduction and represented about one-quarter of the total sale price of a car (Panayotou in Norregaard and Reppelin-Hill 1999).

Or ‘Man’?

Both Locke and the neo-classical economist Adam Smith, held that private and public interests were identical in the long run: ‘each individual pursuing his or her own good is led, as if by an invisible hand, to achieve the best good for all (Smith 1776). Self-interest and the general interest are argued by liberals to coincide in the long-term. Here, the emphasis on prudence, reason and on ‘rational man’ comes into play. Back in Locke’s day prudence was seen to be connected to the rise of capitalism, those who were prudent became rich while those who became (or remained) poor were imprudent. This propelled an optimistic belief in the ‘homo economicus’ (Zimmerman 2000:103). Most social problems can be solved by turning social transactions into economic exchanges because man always acts rationally and will look for the most efficient outcome of economic exchanges (Zimmerman 2000). But in
reality ‘private benefit and public interest seem to point in opposite directions’ (Carter 2001:164). History has not turned communities in collectives with – as Locke intended - ‘citizens who are all both pious and prudent’ but has more likely led to ‘an imagined community of virtuous anarchists’ (Russell 1946: 560).

Conclusion

Liberalism and its ‘free market’ economics sits uneasily alongside the green idea of ‘collective solutions to environmental problems, intervention and the needs for constraints on individual lifestyles’ (Martell in Carter 2001:65). The emphasis on individualism, personal freedom and private gain that characterises liberal democracies and capital-driven economies are not yet showing any true intention to reduce ‘extreme consumption and the perceived need for high-volume, high-polluting, high-obsolescence products’ (Press and Maximillian in Carter 2001:216). Although the market seems to work well in situations where a clear cost/benefit analysis can be made (Eckersley 1993) such as in energy conservation (it is too early to tell whether emission trading schemes will work), it makes sense to accept the limit of the market. And a limit to the rational behaviour of ‘man’ in that market (Mulberg 1992). WWF has taken stock of the current state of natural affairs and concludes in its latest Living Earth report that ‘reckless consumption of ‘natural capital’ is endangering the world’s future prosperity, with clear economic impacts including high costs for food, water, and energy” (Reuters 29 October 2008). The only way that the idea of the market can act as an instrument for change is if consumers are willing to play their part and change their behaviour (Carter 2001) because we cannot consume our way out of an environmental crisis.

References


