



COMPETITIVE ENTERPRISE INSTITUTE

**EUROPE, ENERGY & THE ENVIRONMENT
THE CASE AGAINST CARBON TAXES**

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INTRODUCTION

The 40 year European experiment on whether centralized planning or the free market is more effective at advancing human welfare is coming to an end. Spurred by the Soviet belief in "scientific" centralized planning, the nations of Eastern Europe were plunged into the murky abyss of state management and sluggish economic growth. The belief that economic efficiency could come without economic freedom was terribly wrong. Only free individuals are motivated to seek out the knowledge and to acquire and employ the skills needed for efficient growth. The people of Europe, more so than we in the United States, recognize that fact -- for they are closer to the disasters of Eastern Europe, and their nations came far closer to being forced to participate in that experiment.

Yet, today, no longer faced with a military threat, the world seems prepared to repeat the disaster of central planning -- with an even slimmer chance of success. Again we are told that individual liberty must be subsumed to the collective good. Again we are told that individual freedom is incompatible with human welfare. This time, however, we are told that freedom must be restrained to save not the working class, but Planet Earth. We are all environmentalists -- must we all be collectivists as well?

Perhaps not, but politicians have been quick to take advantage of this belief and today many governments are moving rapidly toward ecological central planning. This time, however, the line dividing the market and planned economies will not be the Iron Curtain but rather the Atlantic Ocean -- or perhaps the Pacific Ocean, if the U.S. joins this collectivist crusade.

This is not to argue that environmental values are unimportant -- rather the contrary. It is precisely because environmental concerns are so important that they should not be relegated to the political arena. Today, we have done exactly that: we seek clean air or water in the same way that the planned economies of Eastern Europe once sought to produce wheat and bread. Political experts determined the "desired" output level, bureaucracies developed detailed plans to yield these results, and orders were issued to farmers and consumers. That is exactly the process now dominant in the environmental field: government determines appropriate environmental quality levels, creates detailed plans, and issues orders. Eastern European nations did produce some wheat -- just as our environmental protection agencies achieve some environmental gains. Clearly, however, such centralized political controls fail to engage the creative energies of the citizenry, and hardly reach the pinnacle of economic efficiency.

Current policy, based on the belief that individual freedom and ecological survival are inherently in conflict, discourages innovative solutions. Economic growth is seen as antagonistic to environmental values. Thus, we seek to separate Man and nature. Such approaches create unnecessary tensions and produce unnecessary costs. Only a free people will devote the energies and skills needed to protect the ecology, just as only a free people can ensure a healthy and prosperous economy. This basic fact is too often ignored by the environmental establishment.

Mounting criticism of the conventional approach to environmental policy has stimulated reform efforts, particularly at the U.S. Environmental Protection Agency. Unfortunately, the emphasis has been on the methods used to advance politically determined environmental objectives, rather than on the direct problems of centralized political controls. Therefore, the environmental reform debate has focused on the relative merits of eco-taxes, tradeable pollution permits, and other "market-oriented" policies, rather than the more fundamental issue of the inability of political institutions to develop rational environmental policy.

Few question the premise that environmental policy should retain its political character. Thus, environmental goals will continue to be set politically. Now, however, "markets" will be harnessed to advance these political goals. This strategy represents the search for a Third Way between the capitalist and socialist systems -- market means to attain politically determined ends. Such a strategy was, of course, attempted in Eastern Europe and the former Soviet Union as "market socialism." Just as it failed in these instances, it will not meet with success in the realm of environmental policy.

Any serious discussion of environmental policy must first focus on ends, not means. When we travel -- we must first decide our destination, then we decide how to get there. To focus on the efficiency potential of pollution taxes is akin to seeing that efficient, and infamous, instrument of France -- the guillotine -- as the solution to the problem of justice. The purpose of a judicial system, of course, is not to put to death random individuals more or less painlessly, but rather to ensure that the guilty are distinguished from the innocent. Certainly, that too should be our goal in the environmental field. Should we focus on acid rain or solid waste management? On the plight of the African elephant or the quality of groundwater in the U.S.? On the risks inherent in biotechnology or those associated with trace air toxics? The challenge of environmental policy is to determine what pollutants are most serious, what sources most culpable, what damages most significant, before determining the appropriate course. It is foolish to discuss carbon taxes without first deciding that carbon dioxide reductions would be valuable.

Intellectuals too often focus on such economic guillotines, emphasizing the technocratic elements of societal problems, rather than on structuring a system of property rights and liabilities that would permit the citizenry to make their own choices. Steps that would make this possible in the environmental area -- essentially a free market approach to environmental issues -- are too rarely considered as viable options.

THE "MARKET FAILURE" PARADIGM AND ITS PROBLEMS

The dominant view of environmental policy is that only political management offers any hope of addressing the world's critical environmental problems. That view stems from the belief that environmental problems result from "market failures". Economic activities have negative impacts upon the environment, such as various forms of pollution, but since such effects are "external" to the market they are ignored. Since markets "fail" to consider such external impacts, we must rely on political institutions to remedy the situation. Logically, this paradigm requires that all economic actions having an environmental consequence must be politically controlled.

Unfortunately, all economic policies have such environmental consequences. Therefore, the market failure paradigm advocates that the entire economy be politically controlled. Is this course necessary? Is it essential to sacrifice the economy to save the

ecology? Of course not. It is important to remember that the mere fact that markets "fail" (or, at least, fall short of our expectations) does not mean that political institutions will succeed. In the real world, all institutions are flawed and prone to error. And, as the experience of Eastern Europe suggests, the potential pitfalls of government failure are far greater than those posed by the market.

In an effort to simplify its tasks, environmental agencies have sought to control pollution not at the point where pollution occurs, but upstream where the administrative costs are less. For example, pollution results only when a car is driven and then, at highly varying rates, depending upon the design of the car, its condition, the fuels used, the mileage driven and the locale. Nonetheless, environmental constraints are not imposed on automobile driving, but on petroleum and automobile production. The resulting inefficiency means that controls are less effective, less equitable and more costly than warranted.

Such problems have grown as EPA has moved from its initial focus on controlling a handful of major water and air pollutants to today's mission of controlling hundreds of trace elements. Because EPA's first efforts were aimed at controlling small, and relatively simple problems, such as lead emissions from gasoline, political controls were clumsy but somewhat effective. Today, however, the EPA seeks to control a vast array of trace pollutants and theoretical health risks (several hundred in the latest Clean Air Act). This task is far more complex and far less amenable to political resolution.

Yet, the market failure explanation of pollution suffers from an even more basic problem. If pollution largely reflects the failure of markets to consider environmental values, then the less market-oriented economies of the world should have fewer environmental problems. Czechoslovakia and Hungary, for example, should have experienced fewer environmental problems than France or Germany. However, that has not been the case. Market economies have been far more friendly to the environment - and for obvious reasons.

Market economies are based on self-interest, on private property, contracts and liability rules. In a market system, the individual who makes wise use of his property -- who is more efficient at using land, energy and resources -- prospers relative to his more wasteful counterpart. This self-interest can encourage greater gains in efficiency than can central political directives to "do better." Mikhail Bernstam, for example, in The Wealth of Nations and the Environment, shows that per dollar of GNP, socialist economies use nearly three times as much energy as market economies. Former East Germany consumed 40 percent more energy per person and (reflecting their vastly poorer status) more than 3.5 times as much energy per dollar of GNP as did West Germany. North Korea uses 70 percent more energy per capita than South Korea. Because market economies are more efficient in their use of resources, they place less stress upon the natural environment in the meeting of human needs. If development is to occur -- and I would hope that it would - it will entail the least environmental impact if it results from natural market forces, and not from political controls.

SETTING THE RIGHT GOALS

The basic environmental challenge is to determine goals and priorities, not how to attain them. For the U.S. EPA, this has not been an easy task. As the focus of newspaper headlines has shifted, so has the EPA's focus. Clean water, clean air, acid rain, hazardous waste, noise pollution, endangered species, wetlands, drift nets in the Pacific, smog in Los

Angeles, the forests of the Amazon, the ozone hole over Antarctica, pesticides, biotechnology, global warming -- all have been priorities at one time or another. Laws and regulations are enacted before careful analysis can be conducted, and then a new issue captures the newspaper headlines. Because politics is a highly fickle arena and not one in which it is easy to maintain consistency or direction, the overall result is a focus on enacting laws, rather than cleaning up the environment. Because President Bush signed a clean air act and a pollution prevention act he calls himself the environmental President. Whether either of these laws accomplishes its goal has become irrelevant to the process.

EPA has certainly failed to establish environmentally defensible goals. An internal study, entitled Unfinished Business, found that the EPA's current priorities were almost the reverse of any rational ranking of environmental risks. These criticisms were echoed in the study EPA: Asking the Wrong Questions. That study noted that EPA had spent vast sums on cleaning up "hazardous" waste dumps, through the Superfund program, despite convincing evidence that the risks posed by such dumps were negligible. It noted that Superfund was a priority program because it addressed popular fears, provided "free" money to local communities, and contained few objective criteria for disciplining spending. Such problems are mounting as EPA moves into more and more policy areas.

Political approaches to environmental issues inevitably respond first to political rather than ecological concerns. Only when the two coincide do EPA's programs serve true environmental purposes, and that is rare. Because environmental issues invoke passionate responses, politicians respond to emotions, not scientific evidence. Too often this means that the sensational concern wins out over the serious -- we focus on parts per billion of some theoretically carcinogenic material rather than on the very real and large risks of bacterial contamination. In recent years, EPA has spent large sums addressing such concerns as Alar, asbestos, dioxin, radon -- in all cases with little if any scientific basis. In this environment, establishing rational priorities has not been easy.

Indeed, EPA itself has become part of this problem, inflaming the fears of people rather than promoting science-based reassurances. In fact, the EPA has suppressed information suggesting that environmental problems pose less of a threat than previously thought. Examples of this are numerous: Delaying release of urban air pollution statistics (illustrating dramatic improvements) until after passage of the Clean Air Act; blocking the release of the National Acid Precipitation Assessment Project which suggested minimal harm from acid rain; refusing to clarify the risks from dioxin (the "carcinogen" justifying many of EPA's control programs). Promoting irrational fears through disinformation, after all, is in the EPA's interest -- it is the surest way to increase its budget. An EPA that reassured the American people, that sought to alleviate irrational fears might well face major cutbacks.

Moreover, environmental policy, just like any other, is subject to manipulation and control by special interests which seek private gain at the public's expense. The U.S. now spends over one hundred billion dollars annually on environmental controls and the recent Clean Air Act will increase this figure substantially. That sum attracts interests that seek to minimize their own costs, and sometimes to penalize their domestic or foreign competitors. As a result, the EPA has become a major forum for special interest pleading. Alternative fuels, solar power, electric cars, mass transit, reforestation, energy conservation - - all these programs have benefited from federal subsidies.

In sum, the effort to control pollution politically is encountering many problems. Costs are high, while success is limited. Priorities are irrational and rarely consistent over

time. Special interest groups are becoming increasingly effective at capturing programs to advance their interests rather than improving the environment. None of this leads to the creation of an effective environmental policy for the United States.

Unfortunately, as these criticisms of EPA have mounted, there has been little questioning of the political determination of environmental quality goals. Reformers seek a shift in tactics, not a change in strategy. Popular now are so-called "market-based" policies, such as eco-taxes and tradeable pollution rights, in which politics still selects the goals, but markets will implement them. The hope that this will result in an effective approach to environmental regulation is misguided.

THE "GLOBAL WARMING" CONCERN

The story of global warming is simple. On the one hand, there are several uncertainties. We are not sure that warming is occurring; we do not know whether warming would be harmful or beneficial; and, we do not know what it would take to prevent such a warming from taking place. On the other hand is what we know for certain. We know that carbon dioxide (CO₂) levels are indeed increasing, in part from human activities; we know that the immediate impact of such increases is to increase agricultural productivity; we know that reducing CO₂ emissions through coercively curtailing the use of energy will entail massive costs; and, we know that many politicians and bureaucrats are sure to use this phenomena as a pretext to expand their power over the world economy.

The present concern over global warming is based upon the presumption that a range of gases affects the atmosphere's transmission and storage of solar radiation. Because human activities have gradually increased the atmospheric concentrations of some of these gases, there is a growing concern that the Earth may be warming. These so-called "greenhouse gases" include water vapor, which accounts for well over half of the total warming effect, carbon dioxide which accounts for some 20 percent, along with nitrous oxide, methane, CFCs and other gases which marginally contribute to the greenhouse phenomenon. Early attempts to predict the impact of increasing greenhouse gas concentrations with computer-based global climate models produced fearful results: 5 meter increases in sea level, 5 degree celsius temperature increases. These predictions triggered calls for immediate action to forestall such disasters.

The world, we have found, has strong Gaia-like properties -- if the world gets warmer, clouds increase which makes the world cooler -- if the world gets cooler, clouds decrease, which makes the world warmer -- and so forth. Biological, physical and chemical mechanisms all react to changes in ways that mitigate both the levels and consequences of shifts in atmospheric concentrations. The models that now exist are woefully inadequate to account for these impacts. Given their sorry record, even at "predicting" the present, there is no reason to believe that the computer models have any ability to predict anything (although they do keep many technicians gainfully employed).

Still, it is interesting to note that as the models have incorporated more and more real world elements, the likelihood of swift and catastrophic changes has declined dramatically. The predicted impact of increasing the level of greenhouse gases has diminished. For example, one of the primary groups advocating the severity of this problem, the Intergovernmental Panel on Climate Change (IPCC), now finds that doubling carbon dioxide levels might increase global average temperatures by only 1.3 degrees celsius after 55 years. Moreover, and perhaps more important, evidence is mounting that whatever

temperature changes might occur are likely to be concentrated in areas and times most likely to produce benign or even beneficial impacts. Warming, for example, is predicted to occur during the winter and the dead of polar night.

Even more important are the findings that question the relevance of the global warming theorists' Panglossian view of the world -- the view that current climatic conditions represent the best of all possible worlds. A moderately warmer climate with more benign winters and nights and greater rainfall might well benefit mankind. The enrichment effect of increased carbon dioxide levels on plant productivity will greatly increase the world's agricultural capacity. Over the next century, the world will need such higher productivity levels to feed the additional populations that are now being born.

Thus, one can see that there is little scientific basis for believing in the apocalyptic scenario of global warming. As a result, we should also rethink the argument that action is needed as a form of "insurance" against a potential disaster. Erring on the side of caution makes little sense if the cost of insurance is greater than the value of that which is insured. Nonetheless, the environmental establishment is convinced that we must do something, and do something now.

THE PUSH FOR CONSERVATION

In addition to their apocalyptic scenarios, the environmental establishment has also presented the argument that reductions in energy use are easy -- that conservation is actually our greatest source of energy. Thus, they have persuaded many politicians that some form of carbon tax is essential, even if global warming may not occur, and that such a policy would be of benefit to the economy. Their goal is to bring carbon dioxide emission levels down to pre-1990 levels by the year 2000 and reduce them another 20 percent by 2005. It is startling that they can assert that such actions can come without tremendous cost.

The argument that conservation is cheap -- that there are vast economic opportunities throughout society for cost-effective conservation -- is interesting. This belief often stems from simplistic comparisons of apples and oranges. Is a Cadillac really "less energy efficient" than a Ford Fiesta? Is a one room apartment more "efficient" than a 10 room villa? Comparative statistics of this type confuse rather than inform the debate. Viewed more carefully, we recognize that using less energy is not always more efficient. The United States is widely viewed as having "wasteful" energy-use patterns. Yet in cities like New York, where most people live in small high rise apartments and car ownership is relatively low, one finds energy usage rates that are equivalent to the "energy efficient" nation of Japan.

Because the world relies on energy in many ways, the costs of coercively reducing energy consumption will be enormous. Economic growth is certain to be among the first sacrifices. The fact that many low-carbon energy sources, such as hydropower and nuclear energy, are opposed by the same forces endorsing carbon taxes, makes efforts to reduce carbon emissions even more difficult. Some environmentalists have even criticized wind power for resulting in the death of birds! The other alternatives to fossil fuels -- solar, hydrogen, etc. -- either have limited potential or high costs or both.

Indeed, Australian studies estimate the costs of implementing their version of the Toronto accords governing CO₂ emissions would cost over 16 percent of their Gross Domestic Product by 2020. In addition, Australia would lose world markets as the demand

fell for coal and other energy intensive materials. Coal export losses alone would exceed \$50 billion. It is estimated that a tax of at least \$60 per ton of carbon emissions would be necessary to reduce energy use by 21 percent. At current prices, this would amount to a 31 percent tax on oil and a 70 percent tax on coal.

A recent survey of the costs of stabilizing carbon dioxide emissions in the U.S. found similarly massive costs. A tax of \$200 per ton or more would be required for equivalent CO2 reductions. This would reduce the GNP by 1.7 percent by 2020, and 2.4 percent by 2100. This tax would amount to \$120 per ton of coal, \$26 per barrel of oil, and \$3.20 per MCF of gas. The taxes on oil and coal would be greater than the existing market prices. Had such taxes existed in 1991, they would have cost the economy \$95 billion.

Europe has experimented with energy taxes for many years. Compared to the United States, Europe places a heavy penalty on the consumption of gasoline. While American gasoline taxes are high at 37 cents per gallon, in Europe they are even higher. This policy has been costly to European consumers with little to show for it. Did Europe find it easier to ride out the oil shocks of the 1970s or the more recent situation in Kuwait? The answer is no.

The world can indeed use much less energy -- but there will be a massive cost from such coercive reductions. Moreover, it is not even certain that such efforts, national or international, will succeed in their attempt to reduce emissions. In fact, there is much indicating that these efforts are more likely to fail.

First, note that an international agreement of this type is unprecedented. The closest analogies to such a convention would be international agreements governing arms control and the attempts to establish international cartels. Here the OPEC analogy is significant: A group of nations with a common interest in restraining oil sales sought time and time again to create an enforceable cartel. Oil is a relatively simple commodity, only a handful of nations produce it in any quantity, its transport is readily observed, and one nation (Saudi Arabia) had a major stake in seeing that the treaty was honored and had the ability almost unilaterally to restrain supply. Still, OPEC has been a failure. Time after time, nations exceeded their production quotas.

If the relatively simple OPEC agreement among nations sharing a common economic interest is so difficult to effect, then what is the prospect for any global warming agreement? That prospect is even more problematic when one realizes that the nations of the world differ dramatically in both the costs of complying with such a reduction agreement and the benefits, if any, they might expect to obtain. Oil restrictions were, of course, more costly to some nations than others; however, carbon taxes are far more so. For nations with a greater reliance on nuclear power, such as France and Japan, the costs would be much less than for those that use and produce coal. To expect an agreement to survive situations which require nations to forgo benefits and incur costs to help their competitors seems overly optimistic.

Just as OPEC has failed, so have most multilateral treaties governing the sales of arms. Consider, for example, the Nuclear Non-Proliferation Treaty. Not only have some European nations aided others in evading these agreements, but Iraq's nuclear chief was recently quoted as stating that he intended to write a book on how to evade the treaty. Do we expect energy treaties (with their much greater complexity) to be enforceable?

Consider as well that the world is currently engaged in a highly contentious debate over free trade. All nations, at least in principle, agree that open trade would be advantageous to all the citizens of the world. Unfortunately it would not be of benefit to

the politically powerful interest groups within their own borders. As a result, the world finds itself in great turmoil over macaroni, chickens, wine, cheese and even kiwi fruit. How much more contentious are we likely to find controversies over the direction and speed of material and energy use? Environmentalists have already begun to use trade policies as a means of leveraging their control over the world economy. Energy treaties would only extend this influence.

THE PROBLEM WITH CARBON TAXES (AND OTHER FORMS OF MARKET SOCIALISM)

The problems with carbon taxes aren't unique; rather they are indicative of a broader range of problems associated with any political effort to plan a complex system. Indeed, the great tragedy in these debates is that we seem to have learned so little from the collapses of the planned economies of the East. We realize that markets have proven far more effective at advancing environmental as well as economic objectives, but fail to take that lesson to heart. We have seen that a system of private property and profit/loss capitalism is more conducive to environmental quality than politically controlled structures, yet our governments act as if only the social control of resources will head off ecological disaster. Environmental goals are still pursued via political, rather than private, means, and the state is seen as the only available steward of green values.

The one change is an interest in market mechanisms -- a realization that direct command and control regulations place little value on costs, provide little opportunity for efficient implementation, and fail to encourage technical development. Many therefore do call for augmenting government's regulatory powers with a broad range of "market mechanisms" -- such as eco-taxes and tradeable emission rights. Yet the question remains whether such changes improve environmental policy.

The evidence of similar experiments in the East suggest that we should not be optimistic. Socialist planners recognized that their economies were failing, and they recognized the advantages of market economies. Seeking to retain political determination of the economy's direction, they sought to introduce incentives and restraints to replicate the efficiencies of their western counterparts. Yet their efforts still failed.

These programs failed because markets without property rights are a grand illusion. Without the system of decentralized control -- private parties revealing their values through voluntary choices -- the information to select meaningful environmental goals and the incentives to see that they are implemented are lacking. Markets cannot be designed out of whole cloth, they evolve from the numerous interactions of a free people expressing their choices as to how their properties are to be used. That fact is not well understood even by free marketeers.

The core argument against market socialism, as forwarded by the likes of Ludwig von Mises and F. A. Hayek, is that central planners could not obtain the information and create the set of incentives needed to direct the modern economy. They simply never could possess the information needed to direct a modern economy. Moreover, even if such information could somehow be assembled, the planners would face the insurmountable task of inducing the population to obey the derived plan. It is important to remember that the efficiency gains of market systems occur not only in production, but in allocation as well. This means that markets are as effective at determining what is to be done as they are at determining how it should be accomplished.

Market socialist "reforms," if accepted, would doom mankind to a sterile repetition of the market socialism failures of the past fifty years. Today, many environmentalists view themselves as the moral and intellectual vanguard of the masses -- ensuring the survival of planet earth against a host of unappreciated threats and risks. Yet their substitution of a coercive political hierarchy eliminates the one mechanism we have to determine what it is that humanity values most in the environmental area. Only an unfettered market can determine what sacrifices the citizens are prepared to make to advance environmental values. In a world of pervasive environmental concerns, to relegate environmental issues to political arena is to ensure their neglect.

Our challenge in the environmental field is to rationally determine where our efforts should address environmental concerns, and how we should proceed. This is true whether we are concerned with increasing the size of elephant herds in Africa or decreasing the production of sulfur dioxide in Britain, conserving tropical forests in Malaysia or reducing groundwater contamination in Florida. None of this is feasible in a directed economy where political power ultimately determines economic priorities.

The real difficulties are not that a few selective uses of regulatory taxes or tradeable government permits cannot have value, but rather that this is not what markets are all about. The world is well advised to minimize reliance on such gimmicks, just as those nations of Eastern Europe should privatize their lands and distribution systems rather than rely on any artificial creation of tradeable production quotas for bread. Only a system of private property and private distribution creates the institutional framework within which individuals can directly decide how much bread and of what type they wish to purchase and produce.

Of course, in a market, certain production levels for various types of bread will result and thus, had we been able to predict the proper levels, we could have "replicated the market." The problem with this reasoning is twofold: We can not know beforehand what mix would actually benefit consumers, and we cannot replicate the efficiency and speed with which market arrangements modify that mix as tastes and costs change. Markets arise from the actions of people in their roles as both suppliers and consumers, and are not directed from above. In this sense, the market is best viewed as a discovery mechanism that is able to demonstrate the combined preferences of society for particular goods and services.

What we want, how to get it, and what costs it will impose are questions that remain unanswered in the environmental field. While many claim to know the answers, there is anything but a consensus. Differing groups have widely differing interests and expectations. Reconciling these diverse interests, motivating the search for better approaches, mapping out the unavoidable tradeoffs and assessing their relative values can only be achieved by creating real markets where both the means and the ends are determined through economic interaction. Our goal is not achieve environmental objectives efficiently -- it is to determine what environmental objectives are worthy of achieving in the first place.

None of this is to argue that taxes cannot affect behavior. Indeed, the United States has a long experience with various taxes used for various purposes. America's experience suggests that taxes will always be seen first and foremost as revenue sources, and only second for other purposes. The one possible exception is perhaps when taxes have been used to drive a product, such as CFCs, out of the market.

Moreover, nothing in EPA's experience with airshed bubbles or offset trading programs suggests any large advantages are likely to accrue from the use of such market mechanisms. Theoretical calculations of the gains of such tax and rights mechanisms

normally presume that regulations will be implemented stupidly, that taxes will be implemented flawlessly. Neither presumption is accurate. High cost regulatory actions will be resisted more fiercely -- making for delays, exemptions, variances, and other adjustments -- all of which reduce regulatory costs. Tax mechanisms will be less specific than assumed (charging wide classes of disparate users similar fees) and will be subject to the same special variations of any government program. The differences between the two political intervention strategies are less than contemporary theory may suggest.

Moreover, markets depend upon stability and predictability. The illusion of market mechanisms is that such stability will be a key feature of the process. It will not. In the United States, government rule changes have played havoc with markets for pollution rights and current law enshrines government's ability to continue to do so in the future. Government wants people to take these incentives seriously, to view pollution rights as "property", while still retaining the right to confiscate such rights at will, without review, without compensation. The history of such "markets" in the U.S. finds that they have been few, rarely utilized, often collapsing. Markets without property rights remain a fantasy of economic planners. They are not reforms that environmentalists should endorse.

WHAT IS TO BE DONE

The core of free market environmentalism lies in an emphasis on the institutional framework rather than the attainment of specific goals. Environmentalists should not seek to reduce emissions to some "acceptable" level but rather to empower the producers and recipients of this substance to reach a voluntary settlement. How else can we establish priorities as to which pollutants are most important to reduce and how and where to reduce them?

Does this mean that we should never use a politically created rights approach? No, but we should recognize that the right should be based on demonstrable damage rather than on the emissions of a particular substance. What is more, the right should be defined so the recipient impact is reasonably uniform. This means that there is no case for a national charge or rights system, but does leave the option of a local fee system, such as one that focuses on a given airshed.

When the framework approximates a market situation, the effect of emissions would be roughly the same regardless of which source emitted. However, when the emphasis is on reducing pollution, that is on the damage resulting from an emission rather than emission itself, then I am willing -- albeit reluctantly -- to consider pollution charge or rights approaches.

CONCLUSION

America has long opposed the European-style gasoline tax. Today, nothing in our political climate suggests that public opinion of such taxes has changed. Moreover, at least 35 Senators are on record opposing the imposition of a carbon tax in the United States. This opposition would be sufficient to block enactment of such a tax. Thus, the U.S. is unlikely to join a lemming-like rush over the energy conservation cliff. The costs of such a policy would be far too great, the benefits, if any, are far too small.

In conclusion, the general presumption that environmental problems require political solutions is wrong. It has led us to measures which threaten to cripple our economies,

while doing little if anything to improve our ecologies. Measures which would take environmental policy seriously, and would seek ways of extending property rights to an ever wider range of environmental resources, have thus far been rejected in favor of ever more intrusive political controls. The latest "reform" effort -- a shift to taxes and rights -- is only a marginal improvement. At a minimum, we should think carefully before imposing massive new energy taxes. After all, a society that seeks to slow down the engines and lights of the world may find itself dead in the water, drifting aimlessly in the dark.