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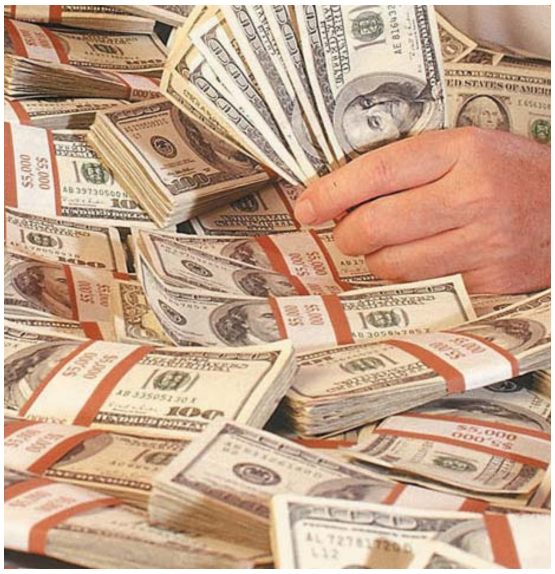
The Greens' Federal Cash Grab

Who Pays for the Environmentalist Behemoth? You do!

by Ivan G. Osorio

It is not news that the environmental movement is very wealthy. The largest green organizations, like the World Wildlife Fund (WWF) and the Nature Conservancy, enjoy annual budgets of tens—often hundreds—of millions of dollars. A lot of their money comes from donations from individuals, philanthropic foundations, and corporations. These funders have different reasons for supporting green organizations, but they all have one thing in common: They are private actors, and as such have the right to give to whomever they want for any lawful reason. However, there is one major green patron that has no business funding such organizations: Uncle Sam.

Nine of the 12 largest environmental groups in the United States get money from the federal government—and the sums are large. Clearly, not all Americans favor these organizations' anti-growth activism and advocacy, but *all* U.S. taxpayers are paying for it. According to government figures, these nine organizations—the Nature Conservancy, Ducks Unlimited, Trust for Public Land, World Wildlife Fund, National Wildlife Federation, Conservation International, Natural Resources Defense Council (NRDC), and Environmental Defense—collectively received at least $370 million in government grants and contracts between 1996 and 2000. And federal money is still pouring into the greens' coffers. Awarding agencies span the federal bureaucracy, including the Environmental Protection Agency (EPA) and the Departments of Agriculture, Commerce, Energy, and Interior.



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Funding data for this article is taken from federal single audits from each organization in question. Single audits are forms that the White House Office of Management and Budget (OMB) requires organizations that receive $250,000 or more per year in federal grants and contracts to submit. (Single audit data is available online at http://harvester.census.gov/sac/.) Information on total budgets and expenditures is taken from each organization's IRS form 990, which the IRS requires from tax-exempt nonprofit organizations (available online at www.guidestar.org).

Most federal money given to nonprofit organizations is earmarked for specific purposes related to specific federal programs. But awarding funds to groups with a stated ideological agenda subsidizes their advocacy, even if indirectly. Every dollar that green groups get from the government is a dollar they don't have to raise from private donors. Further, money

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In This Issue

From the General Counsel

MY EVENING WITH PHIL

by Sam Kazman

I didn't know whether to be happy or sad when MSNBC announced, in late February, that it was canceling the Phil Donahue show. After all, I'd just had my first appearance on the show in January. Should I be grateful for the time that Phil and I had together under the lights, or should I be upset that there would be no encore appearance for me? Or, considering my experience, should I be glad?

Phil, we hardly knew ye.

Well, not really. We actually knew Phil pretty well. When MSNBC brought him back to television last July, the father of daytime talk television made it clear that he intended to present a liberal alternative to the conservative tone of these programs. He joked about being relieved that his stint on Ralph Nader's presidential campaign hadn't made him unemployable. But when his show was cancelled six months later, the jokes about Donahue's politics turned into gripes. Critics claimed that the conservatives' lock on talk radio had now been extended to talk television. Donahue himself accused MSNBC of "trying to out-fox Fox."

The Fox News Channel is typically held up as evidence of television's rightward drift, but as Andrew Sullivan has pointed out, this is nonsense. The Fox News viewership of 800,000 is nothing compared to the 33 million viewers of the three major news networks plus PBS, and conservative talk radio is amply counterbalanced by NPR. As Jay Leno joked, yeah, "the liberal viewpoint is not being heard—except by comedians, magazines and newspapers." He forgot to mention newscasters.

But then it's easy to forget things in front of a live camera. In fact, as I learned, it's easy to forget things even when you're just being *asked* to appear in front of a live camera. Donahue's staffer called to invite me on the show one morning in mid-January. The topic would be SUVs. The opposing guest would be Joan Claybrook, head of the Nader-founded advocacy group Public Citizen. I forgot to ask whether there would be any other guests. The producers told me that they needed me to be present in their New York City studio. I forgot to ask whether Joan would be there as well.

That was how I learned that an ambush works best when the target is live on stage. As I discovered once I got to the studio, there would in fact be *several* other guests: a man whose SUV rolled over after he fell asleep at the wheel, and who was now a quadriplegic; his lawyer, who won a $25 million verdict against the automaker (reduced to $15 million); and a woman who lost her mother in another SUV rollover, caused by her Firestone tire blowing out.

Despite all this, the show went relatively well. The SUV bashing campaign is largely aimed at ratcheting up CAFE, the federal government's fuel economy standards. As readers of this newsletter know (perhaps all too well, since we're always writing about it), CAFE has had some terrible effects on traffic safety through its downsizing of cars. But it turns out that CAFE also has a connection to the Ford-Firestone tire fiasco. According to a Public Citizen report, Firestone attempted to create a more fuel-efficient SUV tire but the result proved defective. The woman who lost her mother may well have had CAFE to blame. As for the man who fell asleep at the wheel of his SUV, there wasn't too much that needed to be said.

Not that there would have been time to say it. A Jesse Jackson segment that opened the show ran into double overtime. That was upsetting, but I did get to shake Mr. Jackson's hand as he came offstage. I thanked him for warming up the audience for me. He gave me a blank look in response. I can't blame him.

I can blame Ms. Claybrook, however. She denied that the National Academy of Sciences' CAFE report found that the program kills people, and she denied that her own organization's Ford-Firestone report found any fault with the quest for fuel efficiency. Worst of all, she got to stay in Washington D.C., while I had to schlep to New York and back.

And I can also blame conservative talk television. When Phil Donahue shut the two of us up, his closing words were, "Here's Chris Matthews and *Hardball*!"

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is fungible: Funding that an organization receives for one purpose frees up other money for other purposes—including lobbying and advocacy.

Every dollar that green groups get from the government is a dollar they don't have to raise from private donors.

For example, the World Wildlife Fund received $19.4 million in government funds during FY 2000. That year, WWF spent $18.5 million on "public education," including its Conservation Action Network, which "helps raise awareness of environmental issues for the general public," according to its IRS form 990. The Conservation Action Network section of WWF's website includes campaigns to, "[o]ppose drilling in the pristine Arctic National Wildlife Refuge and push instead for part of the refuge to be designated as wilderness," and to "[p]ush New York City to use eco-wood."

Green recipients of government largesse try to influence public policy mainly through "public education"—i.e. advocacy—but "public education" often goes hand in hand with legislative lobbying. For instance, NRDC's publications track bills in Congress and rate the green records of members of Congress. NRDC reports $664,528 in "legislative activities" on its 2000 IRS form. That year the federal government gave $679,319 to NRDC.

Federal funds may not go directly to advocacy, but it is difficult to deny that cash flow from government sources makes green groups' advocacy and lobbying activities much, much easier.

To make matters worse, current reporting requirements make it very difficult for the average taxpayer to ascertain exactly where his or her money is going.

Take Environmental Defense's single audit form for FY 2000. That year, Environmental Defense received a $327,218 grant under EPA's Surveys, Studies, Investigations and Special Purpose Grants program. Environmental Defense's single audit form lists the award simply as "U.S. Environmental Protection Agency," with no further description. The form also lists grants from the Departments of Energy and Interior—for $121,994 and $37,500 respectively—that feature no description besides the awarding agencies' names and no federal program numbers besides the awarding agencies' prefixes (there are X's where the program numbers should be).

Further, the $250,000 single audit reporting threshold allows smaller federal grant recipients to report only what is on their 990, providing no details beyond a lump sum—even though such recipients could get as much as $1 million over five years.

Thomas Jefferson said that, "To compel a man to furnish funds for the propagation of ideas he disbelieves and abhors is both sinful and tyrannical." Sadly, we see such sin and tyranny today: *Your* tax dollars are going to groups that want to ban biotech crops and DDT, which can feed people and control malaria in less developed nations; burden the economy with ever more stringent and unnecessary regulations; and stifle the development of new life-saving technologies by keeping them off the market.

Statist environmentalists have a right to be heard. But what they have absolutely no right to is the tax dollars of hard working Americans who do not share their views or goals. Until the government cuts the greens off from its trough, the terms of the environmental policy debate will remain unjustly skewed towards the anti-growth, anti-technology crowd.

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Regulation Roulette: E-commerce and Terrorism

by Braden Cox

SUVs. Illegal drugs. Internet gambling. What's the connection? Terrorism—or so some groups would have you believe. Invoking the war on terrorism is the latest vogue among advocates of regulation. By making casual references to an activity's potential link to terrorism, legislators and special interest groups are exploiting the threat of future terrorist attacks to further their agenda. Of course, no law abiding citizen wants to participate in an activity that puts money into terrorists' hands. But how much causal link should exist before one can responsibly make reference to terrorism?

There are concrete dangers associated with a regulator crying "terrorism." First, the state can curtail an individual's right to pursue certain activities just because a small portion of that activity has the remote potential to be used for illegal gains. Second, it can ratchet up punishments for activities that are already against the law because of the possibility that they could fund terrorism. Carried to its logical conclusion, regulation in the name of preventing terrorism can seriously restrict e-commerce and undermine the development of new technologies.

On January 7, 2003, Rep. James Leach (R-IA) introduced the "Unlawful Internet Gambling Funding Prohibition Act" (H.R. 21—surely just a coincidence to the card game "21" or "Blackjack"), a new version of the failed H.R. 556, a bill passed by voice vote in the House last Congress that failed to move in the Senate. The bill does not prohibit internet gambling outright. Rather, it indirectly shuts down online gambling by prohibiting banks from processing bank instrument transactions that involve "unlawful internet gambling" websites. Rep. Leach's approach is very effective—demonize gambling, the object of the regulation, by stating "fighting terrorism" as your objective.

The means by which consumers and gambling site owners interact, mainly credit card payments and wire transfers, also happen to be of potential use to those with criminal intentions. Therefore, prohibiting credit card payments negates the possibility that some of these payments will go to terrorists. But such an approach would negatively impact legitimate business transactions and be ineffective in stopping terrorist money laundering.

Rep. Leach's bill employs the "six degrees" approach of terrorist separation: Internet gambling consumers pay by use of credit cards and wire transfers; credit cards and wire transfers are payment mechanisms often utilized by criminal money laundering operations; terrorists utilize money laundering schemes; therefore, some consumers of internet

As with illegal drugs, prohibited activities attract those with unsavory motives precisely *because* they are illegal. Underground markets, in which consumers have a hard time obtaining good information, create high returns that would not otherwise exist in a free—and transparent—market.

gambling may in fact be terrorists laundering money. The text of H.R. 21 states that law enforcement has identified internet gambling as “a significant money laundering *vulnerability*” (emphasis added). However, mere vulnerability does not constitute a threat.

It is bad enough to base legislation on such a tenuous line of reasoning. But H.R. 21 and similar legislation will likely affect much more than gambling—it could chill e-commerce as a whole.

E-commerce, by its very nature, is a simple business channel for almost anyone to make a buck (if not a profit). EBay and other websites have turned millions of individuals into entrepreneurs and small business owners. However, what facilitates legitimate business concerns sometimes creates opportunities for those with illegal motives. Anonymity and the easy flow of funds are a boon to those surreptitiously conducting illegal activity.

Also troubling is that Rep. Leach doesn’t seem to mind that his bill proposes to effectively prohibit what should be a personal choice. His recent press release states that “internet gambling serves no legitimate purpose in our society.” However, the millions of individuals that use these sites for simple entertainment, whether for traditional casino style gambling, fantasy leagues, or the ubiquitous college basketball tournament pool, might disagree.

Legislators and the public should be wary of the tactic of prohibiting ordinary business activities just because there might be remote and indirect links to terrorism. Such an approach not only erodes individual liberty, it is also counterproductive. Banning certain activities will not stop terrorists from engaging in those activities. As with illegal drugs, prohibited activities attract those with unsavory motives precisely *because* they are illegal. Underground markets, in which consumers have a hard time obtaining good information, create high returns that would not otherwise exist in a free—and transparent—market.

E-commerce furthers the advancement of commercial dealings between consumers, banks, and businesses, enabling transactions to occur in real time between strangers in different geographical locations. Regulation based on the remote possibility that someone might use the benefits of e-commerce for illegal purposes is a bad—and very costly—idea.

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Q & A with VERNON SMITH

Part II: The Economics Nobel Laureate Talks about Experimental Economics' Contributions to Public Policy and the Use of Public Choice Experiments

Economics Nobel Laureate Vernon Smith spoke with CEI in February about the contributions that experimental economics has made to public policy, and how experiments can help illustrate public choice theory. This is the second installment of a two-part interview.

Photo courtesy of PERC

Left to Right: Author Alston Chase, Economics Nobel Laureate Vernon Smith, and CEI President Fred L. Smith, Jr., at a 1986 conference sponsored by the Political Economy Research Center (PERC) in Bozeman, MT.

CEI: One public policy area in which you have done a great deal of research is the auctioning of takeoff and landing slots at airports. Do you feel that increasing the influence of market forces can help the beleaguered airline industry address many of the problems it has faced since September 11?

Smith: Of course. What you need is a peak load pricing system. It would emerge if you get this market going. You would have a peak in the morning, then it goes down, and then a peak in the late afternoon and evening.

At LaGuardia, where they just back up all day, they've reduced the number of slots–they've had to. They had no choice because it was really a safety problem. So guess how they did it—with a lottery. The FAA and the airlines agreed that, of all the possibilities, a lottery was best. The airlines did not like it after it was over because these things have different values to different people. But on the other hand, they're also afraid to open the door to exchange because the FAA takes a dim view of that. So the airlines, from experience, know that trading would be better. That's one of the lessons from LaGuardia.

There's a gridlock on recognition of...tradable rights. That's a problem all throughout the government. The BLM [Bureau of Land Management] wants to approve the grazing rights you have when you sell to a new buyer. The NextWave case is about the government selling something that it didn't own. According to the Supreme Court, they didn't own it. They didn't have a clear title to it [but] they auctioned it a second time. It's like the Brooklyn Bridge.

I don't think there's any doubt that it would help security if you could get better pricing and smoothing of the flows. Now you see, though, that privatizing security again is going to be practically impossible.

Bob Poole [of the Reason Foundation] says that most people think that the reason why security is handled better in Europe is because the governments do it. He says that's not true. They have private security. The government simply monitors and enforces the rules. This is what we were not doing before. It was just easy to get through. But the companies are going to do that unless you enforce the toughest standards. So now what are we paying? Three or four times as much for airport security? The payroll alone costs four times as much. Of course, the airline industry is perfectly happy to let the government pay for the security.

CEI: Now they're government workers, so if they make a mistake, you can't fire them.

Smith: Yeah, that's right. Except they need to watch out–as soon as they're back in the red again, they'll come around and want to tax the airlines to pay for all of that.

CEI: You have done extensive work on electricity markets, and have advocated open trading in both wholesale and retail markets. Since states that adopted your recommendations have benefited a great deal, while California's half-baked regulatory "reform" failed, does it disappoint you that so many people blame deregulation for California's problems?

Smith: It's a disappointment that so many people blame deregulation for California's problem. What they tended to do in California was to say: "We're going to deregulate the wholesale market, and then later, we will do retail." It ought to be the reverse, or at least ought to be done at the same time, because ultimately you need to balance investment and interruption technologies for transmission and generation. You either need more power, and more transmission line to bring it in, or better pricing and use of less power, or some combination.

In the Del Mar peninsula (in Delaware and Maryland) there's an example–they have a shortage of power out there at peak times. They can't site any more generators out there. Why? Because the people out there don't want any more generators. You can't upgrade the line and add more capacity–people don't want it.

So the distributors out there–one of them is the cooperative–the guy called me about a year ago and said: "We have these enormous congestion rents we have to pay for the transmission line charge. It's not fair but there's nothing anyone can do about it. We have to pay all of these big charges." They were petitioning the Pennsylvania-Jersey-Maryland District, the system operator, for relief from those congestion rates. They wanted to hire me as a consultant to support that.

So I asked him, "Well, can you increase the capacity through the line?" He said, "No." I asked him, "Can you increase the number of generators out there?" He said, "No." I said, "You only have one choice. You've got to introduce pricing at the retail level and interrupt customers and charge them higher rates on peak in the summer and winter. You've got to get responsive pricing in." He said, "Oh, it's very hard to get customers to do." I said, "Well, is it easier to get them to build a transmission line and add generation?"

What's interesting is that there are congestion rents being collected, but what's happening to those congestion rents? They're a signal of how much you're willing to pay for interrupting customers. But they're not responding to that. They're not a signal for more investment because you can't get that by the environmental objections.

There's a tendency for a lot of these markets to be revenue collecting rather than incentive devices. That's a complicated problem. What's most important is that regulated industries think of prices as the way to obtain more revenue. What is price for? Well, you get more revenue if you raise it. You get less if you lower it. They don't think of price as telling you how much cost you could incur in order to make a profit. They think price first, then revenue–and does the revenue cover the cost? If it doesn't, we ought to have the price higher so the revenue will cover the cost—that's their thinking. There's no understanding there of what markets are all about, none whatsoever. And the regulators and the regulated have been thinking in those terms for nearly a hundred years.

It was unthinkable to any of the California utilities that you could actually make money by selling less power. That's unimaginable. The way you make money is to sell more power, not less—because they're thinking of cost being below revenue.

But what happens if cost is above revenue? Wholesale market prices were above retail prices. You can make gobs of money by selling less power. They lost $16 billion.

CEI: What would you say are the most important insights that experimental economics can offer policymakers? Is it that many of the "market failures" that activists cite to support various regulatory proposals are really the result of problems caused by the unintended consequences of existing government programs?

Smith: Well, what experimental economics deals with are the details of every market problem. It tries to identify incentive systems. For example, in electric power, you're in the business of trying to design a market system where one never existed before. Nobody can get it right by pencil and paper alone. It needs to be tested.

There's a gridlock on recognition of tradable rights. That's a problem all throughout the government.

Our undergraduates in the early 1990s did experiments with three sellers here and three sellers there–generators. And this was a big buyers' center. This is London, with generators to the north and south, except there's not many in the south. Most are up north. We compared two different groups–they were running the exact same experiment with the same capacity on the lines with the same generator costs and buyer values. There were wholesaler buyers who were bidding for it. The only difference is, in group one, the line was constrained–you couldn't get more than a certain amount of power through it. The other one was unconstrained.

Okay, what happened here? When this line was constrained, generators tended to raise the price above what it was when it was unconstrained. One way to relieve that constraint is to add more capacity. Another is to introduce interruption technologies. We had some interruption built into that thing. In particular, our mechanism was to take the lowest bids...To get in, you had to be the lowest bidder.

We created a market in which sixteen percent of demand was interruptible. Sixteen percent interruptible is enough that if someone tries to raise the price, they back off.

The difference is that, instead of having four buyers who are forced to buy all power at one price and resell it, each has one quarter of must-serve demand, and each has a quarter or the interruptible. Now what do they do? They go and bid in their own interest to keep prices down. And they keep them down. That's the end of the spiking.

Sixteen percent interruptible isn't all that much. But it's a lot in terms of prices. I have an Australian [presentation] slide in which an eight percent reduction in demand would reduce the price by 267 percent. Say it was $30 off-peak and $70-$75 was the highest bid, but it was stopping at $30.

Now, if demand had been eight percent more, the price would have been way up. The reason is that the supply gets really steep. Peak producers have to get a really good price because most of the time they're sitting there doing nothing. When you turn them on, they're gas hogs. They take a lot of energy, so you don't use them very much. You use them only for peaking, and they're energy-costly.

So that's why, with a little bit of demand-responsivity, you buy yourself a lot of leverage in the wholesale market.

Let me show you a slide. [Now looking at three-colored graph from 1984] This is back under regulation. That's the reason that I chose it–it's deep in the heart of regulation. It is a Midwestern utility. These are the weeks of July 20th through August 3rd, four weeks in late July and August. It's hot. This is the marginal cost of generation–nothing for capital, just the energy costs. It's varying from $1\frac{1}{3}$ cents up to $8\frac{1}{2}$ cents, between

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Superfund: Small Business Destroyer

EPA And Superfund: A Small Business Story
by Robert M. Cox
Alexandria, VA: Washington House, 2002. 177 pp., $16.00

Reviewed by Angela Logomasini

For three generations, Robert M. Cox's successful family business, which used to produce industrial coatings for wood refinishing, endured good and bad times. But it couldn't survive an ambush from the Environmental Protection Agency (EPA), which prosecuted Cox's business, the Gilbert Spruance Company, for the "crime" of sending its waste products to *legal* disposal facilities. In *EPA and Superfund: A Small Business Story*, Cox details the real crime: the federal Superfund law, which was intended to clean up contaminated property, but has instead become a small business nightmare, condemning parties unjustly and destroying the businesses of thousands of honest, hard working Americans.

Superfund arbitrarily holds anyone remotely connected to a contaminated site liable for 100 percent of the cleanup costs.

Cox refutes Superfund supporters' claim that the law is based on the "polluter pays principle." When applied correctly, the principle demands that if one party's actions produce pollution that damages another's property or places the public at risk, that party must pay the costs of cleanup. The principle penalizes those who trespass with their pollution and provides incentives to not pollute.

But Superfund does not apply this standard. Instead, the law arbitrarily holds anyone remotely connected to a contaminated site liable for 100 percent of the cleanup costs. Responsible parties can include anyone who generated, transported, or simply arranged for the transport of waste to a property that became contaminated, as well as anyone who operated a disposal facility or owns a property that became contaminated. A just law would hold liable only those who mismanaged waste and caused contamination—not parties that generated or transported waste for legal disposal.

Cox also points out that, in addition to holding innocent parties liable, Superfund, rather than promote a conciliatory process that generates solutions, pits firms against one another. In particular, he argues that the law encourages big business to run roughshod over small firms. But Superfund's litigation frenzy is not simply a big-versus-small phenomenon. The law encourages all parties to sue each other—even when none of them actually caused the problem—because one way to reduce one's own liability is to force other parties to cover some of the cleanup costs.

Big businesses fare better because they have more resources for litigation and can sue more parties. In addition, many big businesses can survive the costs of cleanup and litigation, while many small businesses die under the burden.

Cox offers several recommendations for Superfund reform. One of the most useful is his call for elimination of liability for innocent parties. Had Congress followed this recommendation in its recently passed, modest Superfund reform package (enacted January 2002), it would have saved many businesses—both large and small—from the injustices that Cox was forced to face. Unfortunately, Congress' "reform" gives lip service to helping innocent parties and small business, but doesn't appear to be any better than the current law and might even be worse in this regard.

Unfortunately, some of Cox's other suggestions focus on shifting cleanup costs to large businesses—regardless of their contribution to the problem. For example, he says the government should "redirect Superfund taxes for direct cleanup and eliminate 75 to 90 percent of the transaction costs." One can appreciate Cox's desire to skip wasteful litigation to get on with cleanup, but his proposal suggests that we should reimpose expired Superfund taxes on chemical and energy industries. This approach shifts burdens from one set of innocent parties to another set of innocent parties.

Is it just to require all of these businesses to pay taxes when only some of them may have contributed to pollution problems? Instead of punishing wrongdoing, this tax punishes these businesses for the "sin" of being among "politically incorrect" industries. Yet it is these industries that provide us with energy to heat our homes and run our cars, chemicals to clean our water, and essential goods like medicines. And remember, these costs are passed along to consumers in the form of higher prices.

If Cox's story tells us anything, it is not that we need to shift more costs to big business. Rather, we need the *true* application of the polluter pays principle: Only those parties that mismanage waste and create real problems should be held liable. Generating wastes and or transporting them for legal disposal are not crimes—regardless of whether the generator or transporter is a small or large business.

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Q & A with Vernon Smith

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Sunday off-peak and Wednesday in the middle of the day...I estimated the energy part of people's bills at around three cents. But the typical charges were around 5½ to six cents per kilowatt–and a little over half is energy. If the resale price is three cents per kilowatt, [the difference] is the extent to which you are subsidizing the peak users and taxing the off-peak.

I would say: "You want people to invade this [the peak usage time]. This is where the profit is." Some will argue against this: "Wait a minute. You're skimming the cream." Yeah, that's right. Who created the cream? [The producers] created the cream.

CEI: You recently moved the Interdisciplinary Center for the Economic Sciences to George Mason University—joining your fellow Nobel Laureate James Buchanan. What are the advantages of working with the leaders of the public choice school?

Smith: Public choice experiments are pretty common, but the Economic Sciences Association [and] Association of Experimental Economists–we all always meet with public choice theorists, and have for many, many years. Charlie Plott [at Caltech] was instrumental in getting that started.

A huge number of experiments have been done under public choice. The bad news from the point of view of economic theory is that it is true that you can have a free-riding problem with public goods. The good news is that it's not nearly as much as the theory would tell you. Those markets are less efficient; but the efficiency doesn't go to nothing, but to very low levels, in experiments. Also, it's not all that difficult to get better incentives.

One of the best pieces of work on public choice was done by Elinor Ostrom of Indiana University, *Governing the Commons*. She's looked at a huge number of commons problems in fisheries, grazing, water, fishing water rights, and stuff like that. She finds that the commons problem is solved by many of these institutions, but not all of them. Some of them cannot make it work. She's interested in why some of them work and some of them don't.

One example is the Swiss alpine cheese makers. They had a commons problem. They live very high, and they have a grazing commons for their cattle. They solved that problem in the year 1200 A.D. For about 800 years, these guys have had that problem solved. They have a simple rule: If you've got three cows, you can pasture those three cows in the commons if you carried them over from last winter. But you can't bring new cows in just for the summer. It's very costly to carry cows over to the winter—they need to be in barns and be heated, they have to be fed. [The cheese makers] tie the right to the commons to a private property right with the cows.

In some cases we make public goods out of things that are really private goods. Highways don't have to have to be a public good.

CEI: Is there a way for experiments to illustrate the situations in which people will rent-seek?

Smith: Yeah. You can illustrate that a lot of ways. In fact, Bob Tollison [at Ole Miss] has a very good classroom illustration. It's not even an experiment, but you could do it as an experiment.

You have a single prize that people apply for–and it's costly to apply for it. It can only go to one winner. It is kind of like a lottery, except that everybody incurs these costs...There is a winner, and it's the one who's willing to pay the most and presumably has the lowest costs.

There are a lot of examples that can show, easily in the classroom, how you can have more and less efficient ways to structure the allocation of something.

In some cases we make public goods out of things that are really private goods. Highways don't have to be a public good. Why should the government be the one to build the highways, maintain them, and then collect revenue with a gasoline tax?

I read somewhere that something like a quarter of all automobiles never go on the interstate highway system. I have a 1964 Scout that I bought new in 1964, and I don't take it out on the highway. There are a large number of vehicles that don't go on the highways. But you have to pay the gasoline tax to help pay for the interstate system. Has the government solved the public goods problem? No, they've created it. They created an externality. I have to pay for something that I don't benefit from.

Most firefighting systems are run by governments. Why is that? I can tell you how that probably happened. They started out being volunteer fire departments. Then the city government appears, and it starts to collect taxes. It has a budget. So all the people involved in the volunteer firefighting said, "Hey, let's let the city pay for this."

A lot of the cattle industry in this country grew up in a lot of the territories in the West that weren't even states. They had no sheriff, so the ranchers formed their own associations and branded their cattle. They would go out and hire a couple of gunmen to go around and make sure that you didn't have my cows and bring them back. That was a private enforcement system. It was an open range, so cows got all mixed up. So you have property rights on them–in the hindquarters of these calves. In comes the state–and the sheriff–and these guys say, "Why should we have to do all of this? Let the sheriff do it. He's a law enforcement officer. Let him take this over, too."

That's free riding in reverse. People are free riding on the state budget to get something that was a private good done by the state. And then economists come around–after Paul Samuelson wrote his paper in 1954–and say, "Hey, that's a public good." No it isn't. It was a private good that the public took over.

CEI: Which is exactly what happened with airport security.

Smith: That's right. A perfectly good private good lost.

7KH *RRG %DG and the Ugly

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The U.S. Fish and Wildlife Service recently ruled that California's spotted owl is well-distributed in sufficient numbers to support its own survival. A U.S. Forest Service draft report, "California Spotted Owl Meta-Analysis Report Synopsis," concluded that there is no statistical basis to conclude that the owl's population is in decline.

According to data from the California Department of Fish and Game, there are 2,306 spotted owl sites containing 3,500 to 5,000 owls in the state of California. The owls are spread among more than three million acres of publicly and privately held forests, indicating they exhibit a high degree of adaptability.

CEI adjunct scholar R.J. Smith said: "This is great news for people and great news for the owl. Now private landowners will be willing to share their forests with the owl, erect nest boxes for it, and help it increase its population. If the owl had been listed, landowners could have been fined or imprisoned for any action that might harass the owl, thus making them unwilling to help it. Furthermore, the U.S. Forest Service will now be able to manage and thin the unhealthy, fuel-loaded Sierra forests. In Arizona where the Mexican spotted owl was listed, the Forest Service was unable to thin the forests, as that might disturb the owl. The resultant fires in 2002 totally burned to ashes the territories of most of the owls in the Apache-Sitgreaves National Forest. Hopefully, this will be the start of a turn towards rationality within the Endangered Species Act administration and away from the perverse incentives that have characterized the past quarter century."

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On February 25, a panel of scientists convened by the National Academy of Sciences released its report on the Bush Administration's draft plan to expand and consolidate the federal government's climate change science initiatives. The administration's draft would create and fund new research initiatives through the year 2010 to improve computer models and simulations of climate shifts, integrate measurements of global change, and clarify research on the regional effects of global warming. The administration's prospective budget for climate research would remain almost exactly the same, at around $1.7 billion.

However, several major media outlets—led by the *New York Times*—have reported that the scientists were unhappy with the administration's approach, and that they do not believe the research will help policymakers and the public determine the seriousness of the problem. The *Times* claimed the new research would only review issues that have already been settled and that the scientists complained that it lacks "a guiding vision, executable goals, clear timetables and criteria for measuring progress." In reality, the scientists commended President Bush for establishing a starting point to encourage comments, criticisms, and suggestions for improvement in climate research programs. They said the drafts—which must still undergo revisions—"indicate a strong interest on the part of the Climate Change Science Program in developing a plan that is consistent with current scientific thinking and is responsive to the nation's needs for information on climate and associated global changes."

William O'Keefe, president of the George C. Marshall Institute and a member of CEI's Board of Directors, summarized the media coverage by stating: "That the Bush Administration has been criticized instead of being commended for creating such an open process is curious. It only proves the old adage that no good deed goes unpunished."

The Ugly: New York State AG Sues to Impose Rx Price Controls

New York State Attorney General Eliot Spitzer has sued drugmakers GlaxoSmithKline and Pharmacia, accusing the firms of consumer fraud, commercial bribery, and making false statements to governmental health plans. Spitzer said the firms' pricing schemes result in massive overpayments by government healthcare providers.

The suit alleges the companies offer doctors and pharmacies discounts from their reported prices, thus encouraging them to prescribe the two firms' products over their competitors', and enabling the doctors and pharmacies to pocket the difference between the companies' prices and the rates at which the physicians and pharmacies are reimbursed by Medicare and Medicaid. Spitzer stated that, "With this action, we are sending a strong signal that the state of New York will use the law to bring healthcare costs under control."

This action, combined with GlaxoSmithKline's troubles with Canadian suppliers illegally selling its products to U.S. consumers at discounted prices, illustrates the hostility to medical innovations that continues to plague the policy debate. With other state AGs bringing similar suits against drugmakers, perhaps it is only a matter of time before their twisted view of prices infects Congress as well.

Media Mentions

Senior Policy Analyst Solveig Singleton warns against the impulse to regulate away everyday annoyances like telemarketing:

The Federal Trade Commission (FTC) has proposed the creation of a federal "do-not-call" list. Telemarketers would face stiff penalties for calling a consumer who placed his name on the list. The idea of a do-not-call list is wildly popular across the board; it first was championed by George W. Bush-appointed FTC chairman Tim Muris and lauded by the irrepressible Rep. Ed Markey (D-Mass.), his keen ear ever-attuned to the heartbeat of the nation. "You have a box-office, smash, runaway hit on your hands!" he said. Markey even staged a telemarketing call to his cell phone in the middle of his little speech to illustrate the issue, in case anyone in his audience did not know what telemarketing was, or needed a demonstration that it can be annoying to be interrupted.

- *Insight on the News*, March 17

Environmental Policy Analyst Paul Georgia reminds us that, contrary to alarmist rhetoric, current weather trends do not point to a rapidly warming planet:

Finland experienced record cold temperatures, and the Baltic Sea experienced more extensive sea ice cover than had been seen in decades...Moscow reached temperatures as low as -37 degrees Celsius, and as many as 23,000 people were without heat as antiquated systems broke down.

This is certainly not what one would expect in a world being warmed by the buildup of greenhouse gases. Of course, one must be careful inferring long-term climate trends from the current weather. For years, global warming spinmeisters have been making a living off cherry-picking weather events to frighten the public.

- *Tech Central Station*, March 6

Senior Policy Analyst Ben Lieberman explains the competing views on energy policy in Congress:

Two Congressional events held on January 8—a news conference supporting more federal funding to help the poor pay their winter energy bills and a Senate hearing on a bill to fight global warming—may at first blush appear completely unrelated. But the two are in fact at cross-purposes, as one seeks to make energy more affordable while the other would send energy costs through the roof.

The Northeast-Midwest Congressional Coalition held a press conference drawing attention to the need to replenish the federal Low Income Heating and Energy Assistance Program (LIHEAP). Several legislators want to increase the program's funding from $1.4 to $1.7 billion.

The stated purpose of LIHEAP is laudable: to provide financial assistance to persons unable to pay their energy bills so their heat isn't shut off in the dead of winter. But the program's impact is less clear in practice.

Utilities in most Northern states are forbidden by law from shutting off a customer's electricity or gas during the cold weather months, so LIHEAP assistance is rarely needed to keep people from freezing in their own homes. The program's real beneficiaries are the utilities, who receive taxpayer dollars for energy bills that otherwise would have gone unpaid, and the bureaucrats who administer the program.

- *Environment & Climate News*, March 2003

Senior Fellow Christopher C. Horner profiles the new, more left-leaning Joe Lieberman:

That stint on the Democratic Ticket—and the concomitant six months on the road with *Earth in the Balance* author Al Gore—made quite a mark on Senator and presidential aspirant Joe Lieberman (D-CT). Since that time he has, among other things, teamed up with frequent George W. Bush nemesis John McCain to introduce some hard green global warming legislation ("McCain-Lieberman"). The legislation would implement a so-called "cap-and-trade" scheme similar to the Kyoto Protocol designed to reduce energy use.

Episodes of Lieberman erratically donning his green religious vestments have become so common that it now appears the time spent with Mr. Gore has transformed the former Senate moderate.

- *Tech Central Station*, February 21

Director of Risk & Environmental Policy Angela Logomasini chastises the Bush Administration for going weak on free market environmentalism:

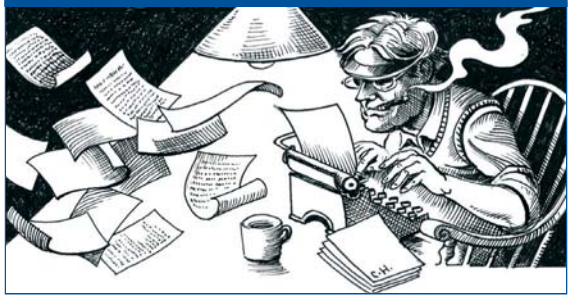
It seems that no matter what he does, President Bush can never please left-wing environmentalists. Friends of the Earth recounts Bush's first two years in office as "A Chronology of Environmental Destruction." The Natural Resources Defense Council describes Bush policy as "insidious and destructive." You would think Bush could breathe a sigh of relief when groups on the Right issue their environmental report cards. Think again.

Bush gets mixed reviews (C- overall) in a report card from PERC—The Center for Free-Market Environmentalism... Unlike the environmental activists, PERC gives credit where credit is due and criticism where warranted.

Apparently, Bush has exerted so much effort to appease the unappeasable environmental left that he's alienated likely supporters. In a 110-paged substantive analysis conducted by nine reviewers, PERC reports: Bush has "drifted away from the FME [free-market environmental] position in the first two years."

- *The Gazette* (Colorado Springs, CO), February 13

...END NOTES



PETA Twice Make "Asses" of Themselves

The Anti-Defamation League (ADL), the nation's largest Jewish civil rights organization, recently denounced People for the Ethical Treatment of Animals' (PETA) "Holocaust on Your Plate" campaign, a traveling exhibit that shows photos of "factory farms" and slaughterhouses alongside photos from Nazi death camps. ADL National Director Abraham H. Foxman called the campaign "abhorrent," and said, "The uniqueness of human life is the moral underpinning for those who resisted the hatred of the Nazis." This follows PETA President Ingrid Newkirk sending a faxed note to Palestinian Authority head Yasser Arafat in which she asks him to "appeal to all those who listen" to him "to leave animals out of this conflict," after a donkey strapped with explosives was killed in a Jerusalem terror attack in which, luckily, no people died. The *Washington Post*'s Lloyd Grove said PETA "have outdone themselves this time." Kerry Dougherty, a columnist with Norfolk, VA-based PETA's hometown paper, the *Virginian-Pilot* said: "Perhaps Ms. Newkirk would prefer that the Palestinians used suicide bombers instead of burros. Oh, that's right, they usually do."

Blix Says He Fears Global Warming More than War

Chief United Nations Weapons Inspector Hans Blix recently told *MTV News*: "You have instances like the global warming convention, the Kyoto protocol, when the U.S. went its own way. I regret it. To me the question of the environment is more ominous than that of peace and war...I'm more worried about global warming than I am of any major military conflict."

Ag Firms to Share Seed Technology with Africa

Four of the world's largest agricultural companies announced that they will share technology with African scientists to help improve food production on that continent. A new Nairobi-based organization, the African Agricultural Technology Foundation, will spearhead the project, with support from American firms Monsanto, DuPont, Dow AgroSciences, and Basel, Switzerland-based Syngenta AG. Godber Tumushabe, who heads the Advocates Coalition for Development and Environment, a Uganda-based think tank, and who has agreed to serve on the foundation's board, told the *Washington Post*: "If [the companies] are able to achieve their objective in the long term, of building strong markets, but in the short term we are able to improve the life of our people, our interests have met."

Man Lives to 113 Ignoring Health Nannies' Advice

John McMorran of Lakeland, FL, who became the oldest living American man, died on February 24 at age 113. While his hearing and eyesight failed in his final years, McMorran's relatives said he enjoyed good health until a few days before his death. "He was never sick," 35-year-old great-granddaughter Lisa Saxton told the Lakeland *Ledger*. "Obviously, he was well put together. He smoked cigars, drank beer, and ate greasy food. He was an amazing man."

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