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## Planning for a Better Environment

By FRED L. SMITH JR.

For 20 years, environmental policy has been dominated by the "market failure" paradigm, the belief that environmental problems are caused by the failure of the market to provide the right signals. This paradigm is at the center of Frances Cairncross's "Costing the Earth: The Challenges for Government, the Opportunities for Business" (Harvard Business School Press, 341 pages, \$24.95). Ms. Cairncross, environment editor for *The Economist*, seeks an accounting system that will replicate in the ecological sphere what markets do so well in the economic sphere.

"Bad government policies," she writes, "may make even more of a mess of the environment than the unfettered market." In particular, subsidizing key industries such as agriculture, forestry and energy restricts conservation-oriented electricity pricing, destabilizes property rights and creates uncertainties that shorten private planning horizons.

Still, Ms. Cairncross's view remains that government must expand — doing less of what it has been doing, more of what it has not. Since markets fail, "environmental policy inevitably [must be] interventionist," she argues. But how ecological central planning is to succeed when economic central planning has been a disaster is an issue she unfortunately doesn't address very persuasively.

The book is divided into two sections: The first half deals with the "political economy of environmental mismanagement"; the second with how the business community might take advantage of the opportunities created by the Green Revolution. Private property receives considerable attention in the first half, as a means of linking economic concerns with ecological values. Indeed, at times, Ms. Cairncross recognizes that a creative program of

expanding property rights to environmental resources might reduce the "market failure" problem. Resources integrated into the market system, she notes, are managed on a sustained basis, while politically controlled resources are at risk. She cites Zimbabwe's successful extension of elephant ownership rights to the local tribes. And in her discussion of deforestation, she rightly notes that: "Poorly defined ownership adds to the pressures for clearance."

Privatization is not easily applicable to all environmental resources, but it can be

### Bookshelf

"Costing the Earth"

by Frances Cairncross

applied far more widely than it has been to date. Instead, Ms. Cairncross's recommendations are generally of the "good government" and "responsible citizenry" variety. The government should adjust prices to reflect environmental costs, eliminate perverse subsidies, create a stable regulatory regime; responsible environmental groups should stop posturing and begin offering positive, productive solutions. Why either group should find such stances in their interests is obscure. Environmental agencies gain power only when problems seem critical; to resolve such problems threatens their *raison d'être*.

On the legitimacy of the current environmental agenda, Ms. Cairncross seems of two minds. At times, she is highly critical of the emotional alarmism so characteristic of the environmental movement, suggesting that "Artificial pesticides and fertilizers between them have saved from starvation many more lives than they have cost through misuse," that recycling should not be viewed as an end in itself,

and even that global warming might not endanger civilization. Yet elsewhere she strikes a strident green tone, arguing that technology threatens the environment, that "true environmentalists" should consume less, that growth inevitably implies greater pollution and that "Using energy probably causes more environmental damage . . . than any peaceful human activity (except perhaps reproduction)."

The energy chapter is perhaps the least market-oriented chapter in the book. When high prices encouraged reduced energy and material use, she favored the marketplace; yet, when energy prices declined, encouraging increased energy usage, she was offended. She would eliminate subsidies that encourage excessive development, and she favors government interventions that would reduce energy use. Ms. Cairncross sees few risks in such policies: "Conserving energy," she states, "never caused a Chernobyl." In fact, mandatory automotive fuel efficiency standards, by forcing people into smaller, less safe cars, have increased highway fatalities by more than 2,000 per year. That the risks of energy use may be much less than the risks of reduced energy consumption — a point recognized by Ms. Cairncross for agricultural chemicals — is ignored here.

Environmentalists, she very correctly notes, have the power to do great harm to companies. She proposes that business address these concerns, and even outgreen the greens. How this might be done she leaves unclear. Business seeks to stabilize the rules, but if irrational and changing perceptions determine environmental policies, then how can business make rational decisions?

Mr. Smith is president of the Competitive Enterprise Institute in Washington, D.C., and co-editor of "Environmental Politics: Public Costs, Private Rewards" (Praeger).