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Environmental economics

Rescuing environmentalism

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Market forces could prove the environment's best friend—if only greens could learn to love them



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"THE environmental movement's foundational concepts, its method for framing legislative proposals, and its very institutions are outmoded. Today environmentalism is just another special interest." Those damning words come not from any industry lobby or right-wing think-tank. They are drawn from "The Death of Environmentalism", an influential essay published recently by two greens with impeccable credentials. They claim that environmental groups are politically adrift and dreadfully out of touch.

They are right. In America, greens have suffered a string of defeats on high-profile issues. They are losing the battle to prevent oil drilling in Alaska's wild lands, and have failed to spark the public's imagination over global warming. Even the stridently ungreen George Bush has failed to galvanise the environmental movement. The solution, argue many elders of the sect, is to step back from day-to-day politics and policies and "energise" ordinary punters with talk of global-warming calamities and a radical "vision of the future commensurate with the magnitude of the crisis".

Europe's green groups, while politically stronger, are also starting to lose their way intellectually. Consider, for example, their invocation of the woolly "precautionary principle" to demonise any complex technology (next-generation nuclear plants, say, or genetically modified crops) that they do not like the look of. A more sensible green analysis of nuclear power would weigh its (very high) economic costs and (fairly low) safety risks against the important benefit of generating electricity with no greenhouse-gas emissions.

Small victories and bigger defeats

The coming into force of the UN's Kyoto protocol on climate change might seem a victory for Europe's greens, but it actually masks a larger failure. The most promising aspect of the treaty—its innovative use of market-based instruments such as carbon-emissions trading—was resisted tooth and nail by Europe's greens. With courageous exceptions, American green groups also remain deeply suspicious of market forces.

If environmental groups continue to reject pragmatic solutions and instead drift toward Utopian (or dystopian) visions of the future, they will lose the battle of ideas. And that would be a pity, for the world would benefit from having a thoughtful green movement. It would also be ironic, because far-reaching advances are already under way in the management of the world's natural resources—changes that add up to a different kind of green revolution. This could yet save the greens (as well as doing the planet a world of good).

“Mandate, regulate, litigate.” That has been the green mantra. And it explains the world's top-down, command-and-control approach to environmental policymaking. Slowly, this is changing. Yesterday's failed hopes, today's heavy costs and tomorrow's demanding ambitions have been driving public policy quietly towards market-based approaches. One example lies in the assignment of property rights over “commons”, such as fisheries, that are abused because they belong at once to everyone and no one. Where tradable fishing quotas have been issued, the result has been a drop in over-fishing. Emissions trading is also taking off. America led the way with its sulphur-dioxide trading scheme, and today the EU is pioneering carbon-dioxide trading with the (albeit still controversial) goal of slowing down climate change.

These, however, are obvious targets. What is really intriguing are efforts to value previously ignored “ecological services”, both basic ones such as water filtration and flood prevention, and luxuries such as preserving wildlife. At the same time, advances in environmental science are making those valuation studies more accurate. Market mechanisms can then be employed to achieve these goals at the lowest cost. Today, countries from Panama to Papua New Guinea are investigating ways to price nature in this way (see [article](#)).

Rachel Carson meets Adam Smith

If this new green revolution is to succeed, however, three things must happen. The most important is that prices must be set correctly. The best way to do this is through liquid markets, as in the case of emissions trading. Here, politics merely sets the goal. How that goal is achieved is up to the traders.

A proper price, however, requires proper information. So the second goal must be to provide it. The tendency to regard the environment as a “free good” must be tempered with an understanding of what it does for humanity and how. Thanks to the recent Millennium Ecosystem Assessment and the World Bank's annual “Little Green Data Book” (released this week), that is happening. More work is needed, but thanks to technologies such as satellite observation, computing and the internet, green accounting is getting cheaper and easier.

Which leads naturally to the third goal, the embrace of cost-benefit analysis. At this, greens roll their eyes, complaining that it reduces nature to dollars and cents. In one sense, they are right. Some things in nature are irreplaceable—literally priceless. Even so, it is essential to consider trade-offs when analysing almost all green problems. The marginal cost of removing the last 5% of a given pollutant is often far higher than removing the first 5% or even 50%: for public policy to ignore such facts would be inexcusable.

If governments invest seriously in green data acquisition and co-ordination, they will no longer be flying blind. And by advocating data-based, analytically rigorous policies rather than pious appeals to “save the planet”, the green movement could overcome the scepticism of the ordinary voter. It might even move from the fringes of politics to the middle ground where most voters reside.

Whether the big environmental groups join or not, the next green revolution is already under way. Rachel Carson, the crusading journalist who inspired greens in the 1950s and 60s, is joining hands with Adam Smith, the hero of free-marketeers. The world may yet leapfrog from the dark ages of clumsy, costly, command-and-control regulations to an enlightened age of informed, innovative, incentive-based greenery.

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