Redistributing (Eco)Wealth

It's Not as Easy as It Seems

by Richard MacLean

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Until relatively recently, modern society has taken the value of nature for granted or ignored it altogether. Its value was measured in terms of wealth creation through resource extraction or food production. This view shifted as the Industrial Revolution ran its course: pollution increased and easily extractible raw materials and arable land decreased.

The turning point in the United States was the rise of the conservation movement. John Muir and Gifford Pinchot led the way by increasing public awareness to the fact that, if left unchecked, the mining and logging industries were on the verge of forever destroying pristine areas of incredible natural beauty.

Consequently, the value of nature began to take on a broader dimension than just numbers on a spreadsheet. What nature has to offer began to expand from traditional measures of wealth to natural beauty to spiritual value to, most recently, complex concepts such as ecosystem services. But how do you put a price tag on the bark of a Yew tree that may yield the next cancer drug?

Today, regulatory and voluntary economic instruments are very much in vogue as ways to value what previously has been overlooked. Be it incorporating externalities such as pollution into the price of goods and services or imposing a value on the indirect services or potential long-term benefits of a natural resource such as a rainforest, a new set of economic indicators is emerging.

There have been numerous examples of win-win situations where the forces of capitalism (specifically, supply and demand) have been put to use to stop impending ecological disasters or species extinction. For example, elephants represent both a source of meat and a threat to farming. For poachers, their tusks are a lucrative revenue stream. The market forces were definitely not in the elephants' favor until three key dynamics changed. First, the Convention on International Trade in Endangered Species of Wild Fauna and Flora issued a ban on international ivory sales. Second, a heavily regulated hunting industry was established that attracts big game hunters in spite of the very expensive permits and hunting guide fees. And, finally, an ecotourism industry was launched to cater to those wishing to shoot with cameras instead of guns. Elephants became a valuable source of revenue, worth more alive than dead.

Does Green Equal Good?

Beginning in the late 1990s, there have been several books published evaluating the value of ecosystem services.[1] Terms such as contingent valuation, nonmarginal values, replacement costs, and nonmarket valuation are used to describe some of the dimensions to this puzzle. The United Nations Environment Programme and others are promoting the concept that those who benefit from ecosystem services should pay for maintaining these ecosystems.[2]

A vehicle for valuing and paying for these "goods and services" is through the creation of commodity markets. For example, carbon emission offsets created through reforestation and/or the protection of existing forests are now traded on international commodity markets. Indeed, emissions trading is a concept well integrated into regulatory frameworks throughout the world today.

Such success stories have been widely reported and touted as examples of why doing good for the environment is doing good for the economy. With

the exception of all the debate over climate change, and cap-and-trade legislation, these concepts have been generally positively viewed by the media, the public, and governments. In the vast majority of articles I have read, the positive benefits are laid out in glowing detail and the downsides are briefly mentioned, if reported at all. It's as if a proposal is labeled as ecobeneficial, then it must be good and should be supported with little challenge.

But as governments reach further into the areas of regulation, taxation, and sales of ecosystem services, the decisions become more complex, more sweeping in their financial and long-term implications, more prone to manipulation by special interests, and more subject to the law of unintended consequences.

For example, in the United States, legislators, regulators, and the media wholeheartedly approved of subsidies to support the development of ethanol-based fuels. In 2007, Portland, OR, became the first city in the United States to require all gasoline sold within city limits to contain at least 10% ethanol. Only when the price of corn rose in developing countries and more rigorous analyses were done to account for the full life cycle of ethanol production, were the unintended consequences understood.

There are many such stories where the stated positive environmental benefits of government action had just the opposite effect than the one intended. The classic treatise is the book *Perverse Subsidies—How Tax Dollars Can Undercut the Environment and the Economy*.[3] Examples covered include subsidies to water distribution, fishing, logging, oil, automobile, transportation infrastructure, agricultural, and dozens of other industries.

The problem of unintended consequences also extends to product introductions made in the name of safety: consider the early introduction of CFCs, asbestos, and PCBs, where "unsafe" materials were being replaced by "safer" substitutes.

Communities around the world currently have a much more cautious view of any extractive resource industry moving into their region. The promises of economic and social benefits now have a hollow ring based on a century of bad outcomes from earlier developments.

But in corrupt countries, the community benefit dimensions take on much more perverse aspects. Exploiting natural resources is not under the control of local communities, but totalitarian rulers. Instead of benefiting citizens, resource exploitation enriches a few and is used to fund wars.

Clearly, the wealth generated from mineral resources has been abused for centuries in some regions when controlled by dictatorships. Are we to assume that the wealth from ecosystem services will be immune from a similar fate just because of its stated green objective? Could the taxes derived from the sale of this new generation of natural resources be put to uses that are completely contrary to any conceivable positive environmental benefit? Cash is fungible and green dollars can quickly be transformed and used for destructive purposes.

Redistributing Wealth

There are endless debates raging over the positive and negative benefits of "wealth redistribution." Similarly, the benefits of new green initiatives always appear positive, as described in the media or pitched by environmentalists or politicians. Who would want to speak out against such noble actions? Who would not want to shift wealth around to preserve the planet for future generations?

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Sure there are eco-ideologists who have never met a perceived eco-friendly program that they would not support: facts be damned. The readers of this column know full well, however, that there are unintended consequences to green initiatives and that a superficial, initial examination can be very misleading.

We, as environmental professionals, work in the real world and supply expert advice to business executives, community leaders, and/or elected officials. We are the ones who must do our homework well and not be swept up in the eco-fad of the moment. We know there are unintended consequences, facts to be gathered, and long-term impacts. We have a vital responsibility to look beyond the sound bites and offer our management a balanced, thoughtful analysis of any new program, product, law, or regulation sold as something good for the environment. **em**

References

1. See, for example: Heal, G. *Nature and the Market Place;* Island Press: Washington DC, 2000; Davidson, E. *You Can't Eat GNP;* Perseus Publishing: Cambridge, MA, 2000; Tokar, B. *Earth for Sale;* South End Press: Boston, MA, 1997.
2. *Payments for Ecosystem Services: Getting Started—A Primer;* Forest Trends, The Katoomba Group, and The United Nations Environment Programme, May 2008.
3. Myers, N.; Kent, J. *Perverse Subsidies—How Tax Dollars Can Undercut the Environment and the Economy;* Island Press: Washington DC, 2001.