

PERC REPORTS

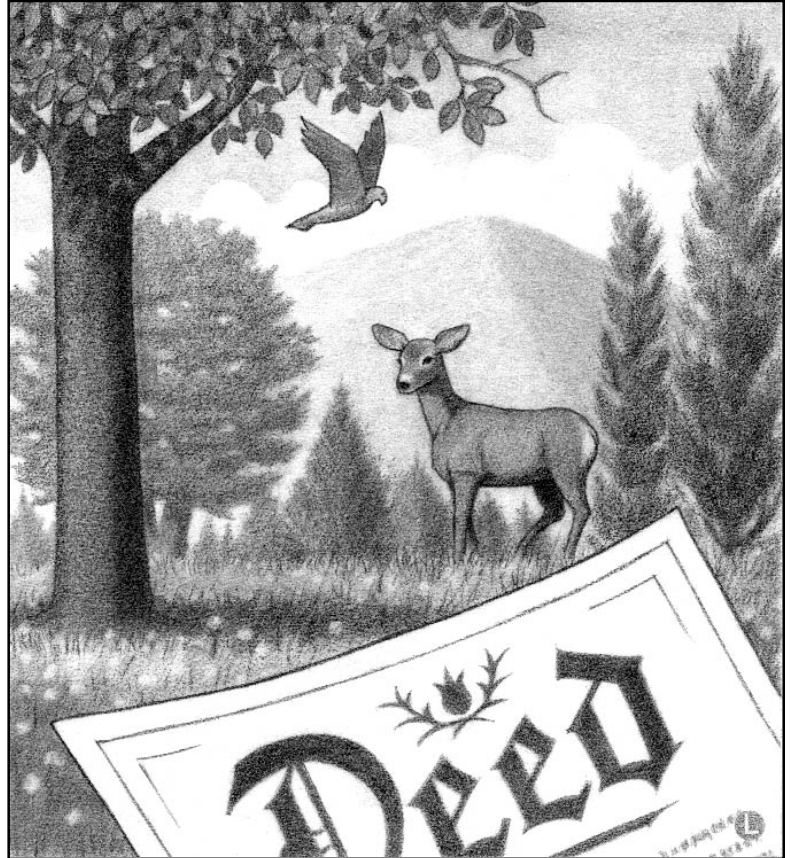
Volume 18 Number 4 December 2000

502 South 19th Avenue, Suite 211, Bozeman, Montana 59718

FREE MARKET ENVIRONMENTALISM REVISITED

*by Terry L. Anderson
and Donald R. Leal*

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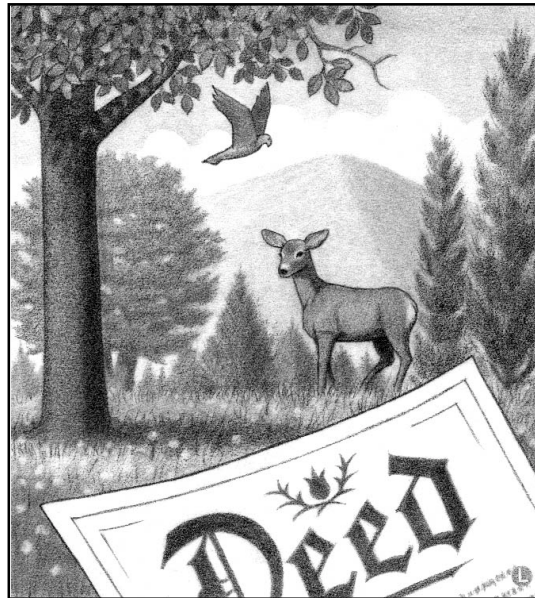
By Terry L. Anderson and Donald R. Leal

Free market environmentalism was once considered an oxymoron. During the 1990s, however, many people began to take free market environmentalism seriously. We are particularly pleased that it caught the fancy of a growing number of environmentalists.

Some environmentalists have turned to free market environmentalism because of its ability to provide a long-lasting solution. When property rights are well defined and enforced, protection of a wetland or bird sanctuary is secured by common law precedent and by the constitution of the United States. This differs from political protection, which can shift with the political winds. As one environmentalist told us when asked about how best to protect wildlife habitat, “You know what I like? A deed in the courthouse.”

Others have turned to market solutions simply because nothing else has worked. “It’s very hard to make progress through lawsuits,” says Bill Heddon of Grand Canyon Trust, an organization that is trying to improve the quality of grazing lands in the West (Watson 2000).

Yet others have turned to free market environmentalism because of its penchant for innovation, as did Aldo Leopold many years ago. He found that property rights enabled him to put his nontraditional ideas to work on his Sand County farm in Wisconsin, and that approach is being carried out today at the



Some environmentalists have turned to free market environmentalism because of its ability to provide a long-lasting solution.

Leopold Memorial Reserve on the site of his farm. The privately owned reserve is an experimental laboratory that tests new ways to restore natural ecological processes on lands that have been intensively farmed or logged (Anderson and Leal, 48-52).

Defenders of Wildlife and the Delta Waterfowl Foundation are using creative property rights solutions to overcome barriers to their goals. Hank Fischer, the Northern Rockies Representative of Defenders, has played a critical role in reintroducing wolves to Yellowstone National Park. Recognizing the power of incentives, he created a fund that compensated ranchers whose livestock had been killed by wolves. This privately funded project reduced the animosity of ranchers who would

otherwise bear the cost of wolf predation. Fischer then established a fund to reward ranchers who allowed wolves to breed on their property.

In a similar vein, Delta Waterfowl has a program called “Adopt-a-Pothole,” which pays farmers in the prairies of Canada and the United States a rental fee for preserving waterfowl nesting areas (known as potholes) on their land. Rather than draining and plowing those potholes, farmers now have an incentive to allow waterfowl to breed there.

On the public policy front, free market environmentalism is also making itself felt as institutional changes allow market transactions that enhance en-

NO LONGER AN OXYMORON

vironmental quality. This is occurring most visibly with water markets and wildlife management.

Not just in the United States, but around the world, water marketing is improving water-use efficiency and enhancing environmental quality. For example, the constitution of Chile, adopted in 1980 and amended in 1988, establishes secure and transferable water rights. These rights create the foundation for a market, one that gives farmers greater flexibility in selecting crops that meet market demand, encourages efficiency in urban water and sewage services, and allows growing cities to buy water without having to buy land or expropriate water.

The fact that land is private and wildlife is public poses a problem that is being addressed in California, Utah, and Colorado. State programs allow landowners freedom from some hunting regulations in return for investments in wildlife habitat. The success of these programs in enriching habitat and improving hunting has caught the eye of officials in other states whose funds for purchasing wildlife habitat are too limited for them to achieve their objectives.

Changes in wildlife management on private lands in the United States pale in comparison to the role that markets play in preserving wildlife in southern Africa, where private ownership of wildlife is legal. Responding to demand for hunting, private owners are returning marginal cattle ranching lands to wildlife habitat. Their improvement of habitat and their management of animals are becoming the salvation of endangered species such as the black rhinoceros (Anderson and Leal 1997, 69-73). By permitting limited hunting of these animals, they are finding the wherewithal to save the species.

Changes in government policies also have a free market environmentalism component. Public lands in the United States are no longer experiencing “business as usual.” Subsidized recreation may be on the wane, as user fees provide a direct link between consumers and land managers, notably through the federal Fee Demonstration Program and new policies in many state park systems. Public land trusts are giving land managers, even federal ones, more incentive to weigh tradeoffs between various land uses. For ex-

ample, the Presidio, a former Army base overlooking San Francisco’s Golden Gate Bridge, is now operated as a quasi-private trust, and Congress has decided that the Baca Ranch in New Mexico, recently purchased by the government, will be managed as a trust rather than as a national park.

On the pollution front, free market environmentalism has made less progress. The main reason is institutional barriers. Some progress did occur with pollution-permit trading schemes, but genuine property rights solutions have not been forthcoming. These might involve protection of rights against harm through traditional common law. Some would say that the costs of defining and enforcing property rights are too high to make this a feasible option (Menell 1992). But others contend that the problem is national regulations that prevent solving problems through common law (Schoenbrod 2000).

If there is reason for optimism in the pollution area, it is because the rising cost of achieving higher levels of air or water quality will require harnessing the entrepreneurial spirit of the marketplace. This has already happened with the agreements made among public and private entities that discharge waste into the Tar-Pamlico Sound in North Carolina. There, a not-for-profit river association manages

pollution control. Members of the association fund efforts by farmers to reduce nonpoint pollution. In return, the funders receive credit for controlling discharges.

We have come a long way down the free market environmental path, but there is still a long way to travel. The federal government controls one-third of the land in the United States—that amount has been growing by 800,000 acres per year since 1960 and is likely to grow even faster with congressional legislation that will commit billions of dollars to buying more land from private owners. The Endangered Species Act has been up for reauthorization for several years. While nearly everyone recognizes that it has not been effective at saving species, no one is willing to stand tall for real reform. The momentum of agencies such as the U.S. Fish and Wildlife Service, the Environmental Protection Agency, and the Bureau of Reclamation is difficult to stop.

Changes in wildlife management on private lands in the United States pale in comparison to the role that markets play in preserving wildlife in southern Africa.

When the idea of free market environmentalism was launched in the 1980s, it was considered an oxymoron; today, however, there is hardly an environmentalist who would not concede that markets have a role to play in advancing environmental quality. The general tendency around the world toward freer markets means that populations of the developing world will share in the wealth that markets create and will have the income enabling them to join the ranks of environmentalists. Combining the spark of innovative ideas with the fuel of pragmatic entrepreneurship gives us hope that we can break the regulatory fist of command and control and replace it with a greener invisible hand.

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This essay is based on Free Market Environmentalism, by Terry L. Anderson and Donald R. Leal. The revised edition of this path-breaking book has just been published by Palgrave/St. Martin's Press.

SOME THOUGHTS ABOUT PERC

CHANGING ATTITUDES

After Twenty Years

PERC (the Political Economy Research Center) celebrates its twentieth anniversary this year. We invited some friends and acquaintances to share with us their thoughts about free market environmentalism and about PERC, including their personal experiences.

Uncommon Characters

My resource economics training followed the conventional format of the 1960s—welfare economics, market failure, and benefit-cost analysis. Emery Castle, a pioneer in the development of resource economics, co-chaired my dissertation committee. Castle is not a name that jumps immediately to mind when thinking about PERC, but for me there is an important connection. Something that Emery always em-

phasized was: “Remember, when thinking about resource, externality, and common property problems, ‘market failure’ is *necessary but not a sufficient condition* for government intervention.” While that point seemingly didn’t stick with some of my graduate student colleagues, it did with me. I puzzled over it and wondered about it on many occasions.

Following ten years of teaching and writing in water resource and production economics, I was fortunate to be recruited as professor and head of Mon-

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tana State University's combined department of agricultural economics and economics. Upon arrival in 1979, I discovered, as anticipated, a dozen or so very good agricultural economists. I also found a small cadre of excellent young general economists—three of whom were also affiliated with PERC.

The reason, I believe, that PERC has had such a profound impact on the evolution of thought in environmental economics has to do with three common characteristics of three uncommon characters. Rick Stroup, Terry Anderson, and P. J. Hill share a passion and knack for clear, rigorous thought; all three are exceptional communicators; and all three have genuinely friendly, forthcoming, and compassionate personalities.

What Rick, Terry, P. J., and their colleagues at PERC have done for me is to fill in the missing pieces of Castle's challenging puzzle. And it is reassuring to know that persistence, good ideas, intellect, and the quality of the messenger do make a difference.

*Bruce R. Beattie
Professor of Agricultural
and Resource Economics
University of Arizona*

Dedicated Academics

In 1999, I was given the opportunity to spend a summer at PERC working as a fellow in the program headed by Daniel Benjamin. In my three months in Bozeman, I finally experienced what I thought graduate school would be all about: dedicated academics who took the time to read my work carefully and give me extremely detailed and useful advice, lively seminars on a wide range of relevant topics on environmental policy, and lots of informal but high-caliber discussions on everything from current political events to the art of getting published.

Perhaps the thing I always found most refreshing about PERC is the widespread belief held by its members that private individuals are just as smart and resourceful as academic experts, policy makers, and bureaucratic planners in developing original solutions to environmental problems if they are given the appropriate incentives. This may be common sense to most people, I guess, but it is so rare in academic

circles. Keep up the good work, PERCies; you've set the standard I try to live up to!

*Pierre Desrochers
Post-Doctoral Fellow
Whiting School of Engineering
Johns Hopkins University*

Squaring a Circle

Reared in a rural Minnesota family whose adults were devoted to Democratic Farm Labor party policies, I was not a likely candidate to appreciate and apply the ideas generated at PERC. My Sierra Club volunteer commitments in the 1970s were directed, largely, to securing more congressionally designated wilderness lands from the domain of federal natural resource holdings. But my education in wildlife management and ecology helped me understand that careful intervention would often be required to sustain the

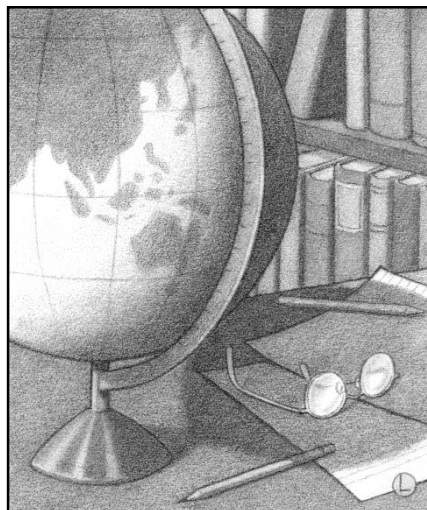
biologic qualities for which wilderness was being set aside. While trying "to square that circle," I came across the concept of wilderness trusts run by zealots for wilderness, a concept created by Rick Stroup and others, and a concept that I scrutinized and came to believe had merit.

A "circle that I could not square" at that time was the notion of privatization of government conservation lands. Terry Anderson's articles and presentations on the potential of privatization kept me in

a state of high anxiety. I was not prepared to give up any of those conservation assets which had been secured. Where would we hike? How could we camp easily and free? Why should we be fenced out?

Shortly after grimacing my way through a privatization discussion with Terry Anderson, I walked towards the northwest, into the wind and home from the campus. Large snowflakes landed on my glasses. I let them melt and smear. While peeking around those clouded lenses to cross a busy street, the thought of privatizing parts of the Library of Congress and selling off books struck me.

First, it seemed a terrible idea, yet something of which Anderson and his colleagues might approve. Then, nearly instantaneously, it seemed a great opportunity to unload a large number of bad books (*Valley of the Dolls* came to mind) now housed at the taxpay-



ers' expense, an action I would applaud.

Two decades after those snowflakes landed, melted and began to flow through ground, streams, and rivers towards Louisiana, my vision is still partially obstructed, but I am making my way to understand, select, and apply PERC-generated ideas. Fortunately for those of us who have the privilege of owning or managing rights in land protected by a deed in the courthouse, we can proceed with confidence and care to measure, manage, and monitor our soil, waters, wildlife, and wildflowers.

*Brent Haglund, conservationist
Madison, WI*

Hooked on FME

I had never heard of PERC or free market environmentalism until I began teaching environmental and resource economics in 1994 and a colleague suggested I might like to read *Free Market Environmentalism*. I did, and I was hooked. Free market environmentalism (FME) has become an indispensable component of my undergraduate courses. I also use articles from *PERC Reports*, the *Policy Series*, and other PERC publications on a regular basis in courses ranging from the introductory level to the graduate level.

PERC and FME have profoundly impacted my thinking about environmental issues. Rather than focusing on areas of “market failure” and how governmental policy can be designed to “correct” the failure, I now think about the costs of government solutions and unintended side effects (e.g., the potential of increased mosquito-borne illness resulting from a ban on aerial spraying of pesticides). I have gained a tremendous amount of respect for personal property rights and most enjoy PERC stories about private conservation efforts that show that the market doesn't always fail the environment.

*Molly Espey
Department of Agricultural
and Applied Economics
Clemson University*

Small Team, Top Players

When the Heritage Foundation went looking for a partner to help craft the conservative vision for smart growth issues, PERC was an easy first choice. We were delighted when Terry Anderson accepted

our offer, and it was a real joy to work with Jane Shaw, Richard Stroup, and Donald Leal to develop an alternative in a field that has been largely dominated by the left. As the nation's top free market environmental think tank, PERC brought widely acknowledged expertise to the effort and is one of the chief reasons why the first major product of the collaboration—a book titled *A Guide to Smart Growth: Shattering Myths, Providing Solutions*—has been such a success.

In the battle for freedom and liberty, PERC may field a small team, but their players are top in their positions. As a result, PERC's impact on the terms and outcome of many of our nation's most pressing environmental debates, and the scores of innovations they have brought to the field, are vastly in excess of their size.

*Ronald D. Utt
Senior Research Fellow
Heritage Foundation*

Front and Center

Thinking about PERC's twentieth birthday, my mind returns to the way things were in 1980. Command and control rode supreme across the land. It was a time when politicians installed wage and price controls in an effort to control inflation, market forces were viewed as the cause of environmental degradation, and an explosive growth of federal regulations dealt with workplace safety, consumer protection, housing, auto safety, and urban problems.

Even then, things were changing slightly on the environmental front. A few crude experiments with market-like instruments were under discussion. The 1980 *Economic Report of the President* briefly discussed EPA's newly announced offset and bubble policies, which allowed highly regulated trading of air emissions. The report included this statement:

Regulation has joined taxation, and the provision of defense and social services as one of the principal activities of government. . . Although some regulation can be largely or wholly eliminated, most of the government's regulatory activities are here to stay. (p. 127)

Now, twenty years and thousands of words later on the use of markets and property rights for environmental protection, the 2000 *Economic Report of the*

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President has this to say:

The challenge in addressing environmental problems lies in harnessing and channeling the power of markets, so that they both deliver continued economic growth and foster sound environmental practices. (p. 239)

There follows an extensive discussion of marketable permits, individual transferable quotas for fisheries, and the prospects for more environmental quality at lower cost. This sounds like something from *PERC Reports*!

Have the relative merits of free market environmentalism finally taken the day in Washington? Hardly. But these ideas are now front and center in the debate. When it comes to environmental quality, markets, property rights, and liberty are no longer relegated to the nether world of Washington policy makers.

*Bruce Yandle
Professor of Economics Emeritus
Clemson University
and PERC Senior Associate*

Personal Thrift

My most vivid memory of a PERC conference is also my first. It dates from the early 1980s. Somehow, I ended up rooming with PERC board member Leigh Perkins, founder of the Orvis Company, so I asked him to tell me what PERC was about. He was traveling, he said, with his usual kit: two pairs of socks. As he was washing out one pair in the sink, he said to me, "Personal thrift! That's where free market environmentalism has to start!" That impressed me, for some reason, more than anything else I heard at the conference.

*Tom Wolf
Taos, NM*

Editor's note: Mr. Wolf is the author of Colorado's Sangre de Cristo Mountains (University Press of Colorado).

The Futility of Government Laws

Most of my experience with PERC has been through my friendships there, beginning with one of

PERC's founders, John Baden. However, from PERC I also received the idea of the utter futility of government laws and regulation backed by the threat of deadly force as a means to protecting our environment. I remember attending a property conference in Seattle hosted by the Washington Research Council. Richard Stroup told how the Clean Water Act made Chicago's water dirtier because it trumped an injunction that had forced Milwaukee to stop polluting Lake Michigan, from which Chicago obtained its water. Rick always explains the perverse results of Congress's simple-minded laws and regulations with good stories in plain, witty language.

*Jack Fay, President
LibertyLogs Corp., Seattle*

Challenging a Predisposition

For most economists, the idea that people's choices reveal information about their underlying preferences is second nature. It is especially salient to those of us specializing in nonmarket valuation of environmental amenities.

Free Market Environmentalism changed my appreciation of the power of the incentives underlying conventional beliefs about how we observe consumers' demands for market goods and how environmental economists use detective work to measure them for those outside markets. By collecting a convincing set of case studies, Anderson and Leal changed my predisposition to believe that some form of public sector intervention was generally needed to assure the efficient provision of environmental amenities.

I continue to believe that when a commodity generates externalities or conveys public good services to people other than those who pay for it, then the transactions *on that market alone* will not be consistent with the requirements for efficiency. While Coase noted important qualifications to this argument, there is also nothing that precludes *other markets* from emerging to help remedy these problems by providing substitute services that compensate for negative externalities or encourage greater public good production through private action.

Public intervention as a required consequence of these phenomena is now an empirical question, not necessarily a logical consequence of the definitions of externalities and public goods.

The most vivid example of these creative responses to failures in one set of markets mitigated by another was called to my attention recently by a

group of ecologist friends. These academics formed a company to acquire development rights for land that could support a variety of wetland functions. They now sell wetland compensation credits in a half-dozen states and recently explained to me how these same lands may also be eligible for equivalent habitat credits for some endangered species that can be “re-sold.” The habitat, you see, is jointly produced by the very activities that are necessary to satisfy the required wetland functions.

I saw a problem and the need for policy intervention. They saw an opportunity. That’s why I teach, and they are planning for early retirement.

*V. Kerry Smith, Director
Center for Environmental and
Resource Economics
North Carolina State University*

A Bright Light

I first became familiar with PERC in 1983. At the time I was a junior member of *Network News*, a long-defunct newspaper syndicate. One of the senior writers, Nancy Shute, had written an article for *Outside* which was one of the first national articles about free market environmentalism.

Shute was a liberal who realized that economic tools—cost-benefit analysis, public choice theory—could be used for traditional environmental goals, such as preventing the construction of dubious dams and unnecessary roads in national forests. I looked into what PERC was doing, visiting Bozeman in 1984 and 1989. I decided that free market environmentalism could address many long-standing environmental disputes. I became impressed with the skill with which PERC’s scholars tackled tough questions.

Since 1994, I’ve found that many think tanks have grown stale, tired, and boring. But PERC’s scholars continue to come up with more interesting and creative ideas than some think tanks that are ten times its size. PERC remains one of the brightest lights in the world of market-oriented think tanks.

*Martin Morse Wooster
The American Enterprise
Silver Spring, MD*

International Impact

Through our efforts at the Atlas Economic Research Foundation, we have many opportunities to

discuss environmental issues with public policy think tanks in many different countries. In my early days at Atlas, I was surprised to see how many institute leaders comfortably applied free-market arguments to traditional economic problems, but drew the line at environmental issues.

To them, environmentalism seems to pose the one area where traditional command-and-control solutions are tolerated, even by free market diehards. But, as I pull out the books and articles by PERC associates and their colleagues, a great fascination (and relief!) sets in as we examine how the free market does not let us down, even on the thorniest environmental issues.

Many colleagues are surprised to learn that a hardy group of PERC policy analysts have been applying free-market arguments to problems of the environment for some three decades now. Terry Anderson and Don Leal’s book *Free Market Environmentalism* is one of the most popular books among Atlas institutes. With translations that include Portuguese, Spanish, Turkish, and Chinese, PERC is largely responsible for bringing these ideas to the far corners of the world!

*Jo Kwong
Atlas Economic Research Foundation
Fairfax, VA*

A Wake-up Call

In the early spring of 2000, I received a call from Terry Anderson, representing an organization called PERC. I had never heard of them before, but they sent me a good deal of material to read about their research and efforts. Terry asked me to speak to the group at their annual retreat in Montana about our work in forestry at Charlane Plantation as well as our commercial hunting preserve. At first I hesitated, not being sure what I might be in for.

As I began to go through some of the material he sent me, I became more and more intrigued as to what they were doing way out there in Montana! I read about the research they had done concerning our national resources, such as grassland leases, timber harvests, mining, and other resources. The facts and figures were disturbing to me, and I began to realize that while my beloved country was trying to be a good steward and business entity, it was not exactly succeeding.

Then I read Terry’s and Don Leal’s book *Environmental Capitalists*. Wow, what a wake-up call! It made me realize how private landownership coupled with good

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stewardship ethic and entrepreneurial spirit worked where governmental ownership was failing. And in the process I realized that I was an enviro-capitalist myself, and darn proud of it! Well, I accepted their invitation, and now I'm a permanent PERC proponent!

*Chuck Leavell
Dry Branch, GA*

Editor's note: Mr. Leavell is a prominent rock 'n roll keyboardist who records with the Rolling Stones, Eric Clapton, and others.

Principled Education

Recently I was appointed to a new Virginia Environmental Education Advisory Committee. I will head a working group tasked with examining the resources applied to environmental education and identifying new resources to improve environmental education in our schools.

The first place I turned for ideas was PERC's Web site. Over the past twenty years I have come to value the refreshing and insightful ideas that PERC so eloquently espouses. At the Mercatus Center, we frequently turn to your publications for the research and principles needed to support our comments on federal regulations.

On your Web site, I discovered that Michael Sanera and Jane Shaw have updated their very valuable book, *Facts Not Fear*, and that PERC offers student materials and teacher resources designed to promote critical economic thinking about key environmental issues. These materials present a balanced, thought-provoking review of such issues as curbside recycling (is it really good for the environment?) and endangered species (why are whales threatened while chickens are not?). The environmental mystery format is an ideal way to engage young students and encourage their critical thinking.

I don't know how many times I have turned to PERC for thoughtful, principled discussions of environmental issues. I am never disappointed.

*Susan E. Dudley,
Deputy Director, Regulatory Studies Program
Mercatus Center, George Mason University*

Stalwart Advocate

One of the most important wars being won today is the struggle to achieve a safe, clean environment in the midst of global economic growth and prosperity. Groups hostile to growth per se are locked in battle against individuals with environmental research organizations who have done their homework on forces affecting the environment.

The difference between PERC-type research and the political advocacies taken by many high-profile, well-funded, so-called "environmental activist" groups is a professionalism borne of objective study, political neutrality, and long-term perspective.

As with the Heartland Institute, PERC's mastery of economics has provided environmental researchers

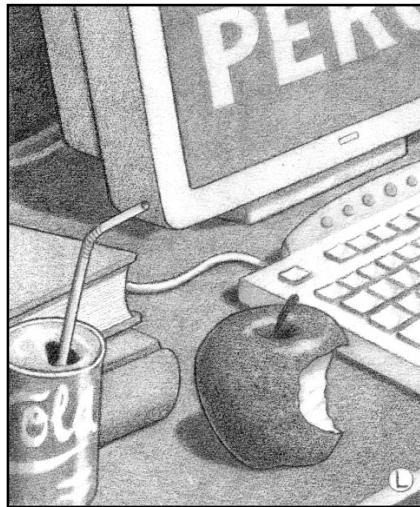
with the tools needed to make rational decisions vis à vis tradeoffs between costs of rules and regulations and people's health and lives. PERC also avoids the pitfalls of bad science by not siding with a political party. They and their researchers thereby have avoided being constantly whipsawed by the now-discredited attempts to scare Americans into believing "chicken little" scenarios of a coming "global ice-age" one year and "global warming" the next.

PERC has trumped its adversaries by remaining humble. By adhering to objective research on the issues, its researchers have carefully documented science from scam, reality from rhetoric. They put chemical, geological, oceanographic, and atmospheric changes into dynamic and historical perspective, rather than engage in short-term comparative statics. Moreover, by focusing on the 4-Ds required for establishing secure property rights—property as definable, defensible, divisible, and divestible—PERC underscores the inseparability of good ecology and a prosperous economy.

Life on earth is about rational decisions. One reason we are winning this war against knee-jerk and irrational eco-extremists is because PERC and its supporters everywhere have overcome junk science with constructive and clearly articulated quantitative guidelines for improving the quality of our environment.

Life on earth is about rational decisions. One reason we are winning this war against knee-jerk and irrational eco-extremists is because PERC and its supporters everywhere have overcome junk science with constructive and clearly articulated quantitative guidelines for improving the quality of our environment.

*David L. Littmann
Senior Vice President & Chief Economist
Comerica Bank, Detroit*



December 2000

Dear *PERC Reports* Reader:

In 1980, a group of us started PERC never dreaming that it would grow into the premier institution for the study of free market environmentalism. Since then, we have gone from a voice in the wilderness to a formidable player in environmental policy. Now, more than ever, we have an opportunity to formulate the debate in market terms, but we need your help.

Your support can help implement a variety of programs such as:

- Research on innovative funding for conservation projects.
- PERC's *Public Lands Reports* documenting fiscal and environmental problems with public land management.
- Congressional staff briefings on free market environmentalism.
- Fellowships for graduate students.
- Undergraduate student seminars on free market environmentalism.
- Workshops and curriculum materials for primary and secondary school teachers.

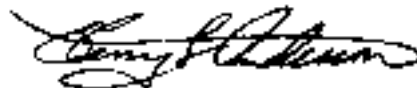
Obviously, our agenda for 2001 is ambitious and therefore it needs your support. By contributing to our effort, you can help us move beyond political environmentalism to free market environmentalism.

Don't be a free rider when it comes to the production of PERC's ideas and projects. Give now and claim ownership in the ideas of free market environmentalism.

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- Go to www.perc.org and contribute online quickly and easily.
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Thanks. Your investment in PERC can make a difference.

Sincerely,



Terry L. Anderson
Executive Director

GREENER PASTURES

PRIVATE INITIATIVES

By Linda E. Platts

TIRE POWER

More than 270 million tires are discarded every year and that number continues to grow. The good news is that 64 percent of those tires are now being reused as flooring, fuel, automobile parts, and even playground surfaces. Others are retreaded to sell again overseas and of course some end up in landfills.

The largest market for old tires is as an alternative fuel source. As much as two-thirds of all recycled tires end up powering manufacturing and industrial plants. Last year, 17 million tires were processed into 2-inch fuel chips by GreenMan Technologies of Lynnfield, MA. Each tire contains the equivalent of two and a half gallons of fuel oil. The company reported a net income of \$4.7 million in 1999 with higher expectations for this year.

In Lancaster, PA, Dodge-Regupol Inc. employs 150 people who turn 2 million tires into attractive, high-end flooring and automobile parts. Its largest customer is General Motors, which uses 5.8 million pounds of recycled rubber annually in parts such as brake pedal pads and radiator baffles.

The future for the recycled tires looks bright and according to the president of GreenMan Technologies, Bob Davis, the industry is still in its infancy.

—CNN

STICKING WITH SOY

Soybeans are as much a part of the American diet as corn on the cob, just not as obvious. From margarine and cooking oils to salad dressings and non-dairy coffee creamers, soybeans have made a place for themselves. Now, a new soy-based adhesive is shaking up the glue industry. This adhesive, which can join

two pieces of wet wood in a strong, dependable bond, is opening new markets for farmers and earning more money for lumber mills.

The research that led to the new adhesive was supported by the industry-funded United Soybean Board. The wet wood adhesive allows mills to use 1 percent more of every tree. That doesn't sound like much on a tree-for-tree basis, but it adds up to sizable revenues for lumber mills.

Home builders will also realize savings as more stable joints can save hundreds of dollars in materials and labor. And environmentalists welcome an alternative to petroleum-based adhesives.

Currently, the new adhesive consumes 23 million bushels of soybeans annually. However, as it becomes more widely used in other wood products such as plywood, the soybean board expects consumption to increase to 150 million bushels by 2005.

—Reuters

LEASING TREES

Protecting forest lands in developing countries often meets with strong resistance. Rather than create parks or reserves, many governments feel compelled to choose commercial development because of their urgent need for the revenues generated from logging and mining.

Conservation International, a private nonprofit foundation based in Washington, D.C., is overcoming this resistance with cash. By purchasing the development rights that governments normally sell to timber and mining companies, CI is protecting huge expanses of publicly owned tropical rain forests. It is currently finalizing plans to buy the logging rights to 200,000 acres of pristine rain forest in southern Guyana.

Surprisingly, the going price for these develop-

ment rights is extraordinarily cheap—only a few dollars per acre. Their value as wildlife habitat is far higher in the environmental community than the going market price for their timber or minerals.

CI has long favored using business strategies to protect the environment. It aggressively supports ecotourism as an alternative to traditional development and extractive industries. CI hopes that by paying the government for the development rights local people will ultimately benefit through job creation in more environmentally sensitive industries.

—*Wall Street Journal*

RETAILER'S RELEAF

This summer of devastating wildfire has left many areas vulnerable to further damage. The aftermath of erosion, runoff, and flooding can cause more harm to fish and wildlife habitat than the fire. Acting as quickly as possible, the conservation group American Forests has joined forces with retailer Eddie Bauer to create a fund that will aid communities in restoring damaged forests.

For many years Eddie Bauer has encouraged its customers to add a dollar to their merchandise totals, which the company in turn uses for planting trees. The retailer has committed \$1 million from its "Add a dollar, Plant a tree," program to the Wildfire ReLeaf fund. The first replanting took place in Los Alamos, NM, where a nonprofit community group planted more than 4,000 trees purchased by the fund. Six more sites recently hit by wildfires will receive a total of 281,000 new trees by the end of 2001.

—*Associated Press*

A FUND FOR FORESTS

Two major foundations have donated more than \$12 million for the protection of private forest lands throughout northern New England and New York. This contribution represents the largest single private commitment to forest conservation in the region.

The Doris Duke Charitable Foundation provided more than \$10 million and the Surdna Foundation added another \$2 million to capitalize the Northern Forest Protection Fund. The goal of the fund is to provide multiple public benefits by protect-

ing working forests that produce wood products, creating nature preserves, and preserving vital habitat for wildlife and plants. Specifically, the fund will encourage high standards of forest management, increase public access, and promote land transfers and easements. Many of the projects will rely on voluntary efforts to manage forests in a sustainable manner.

The Northern Forest covers 26 million acres, 85 percent of which are private land used for producing lumber, paper, and other wood products. The fund wants to maintain wood production and support the communities that are economically dependent on working forests. At the same time, it will provide assistance to private owners in evaluating their land management practices for long-term sustainability.

Many forest lands in the area are for sale and monies from the fund will be used to buy some of these lands. Proposed projects must be approved by the advisory board and all monies spent from the fund must be matched four to one from other sources. Through mixed uses the newly formed fund intends to provide economic, ecological, and recreational benefits on hundreds of thousands of acres of forest land.

—*Greenwire*

A PURPOSE FOR SLUDGE

What to do with sludge is a problem faced by many a manufacturer. And that problem has been further complicated in recent times as state and federal agencies often regulate sludge as a hazardous waste. Undaunted, IBM's facility in Hopewell Junction, NY, has come up with a recycling plan.

The sludge from its plant is a product of electroplating wastewater treatment processes. It contains high levels of calcium but extremely low levels of hazardous materials. The calcium is what gives IBM's sludge its value. It is a necessary ingredient in cement production, making it ideal for reuse in a cement kiln.

Concerned government agencies agreed to some flexibility in their regulations and IBM agreed to protect human health and the environment. As a result, the company is recycling 300 tons of sludge per year. The use of this recycled material saves raw materials as well as landfill space and the cost to IBM of using that space.

Big Blue took the initiative and found both a more efficient and environmentally sound way of doing business.

—*Environmental News Service*

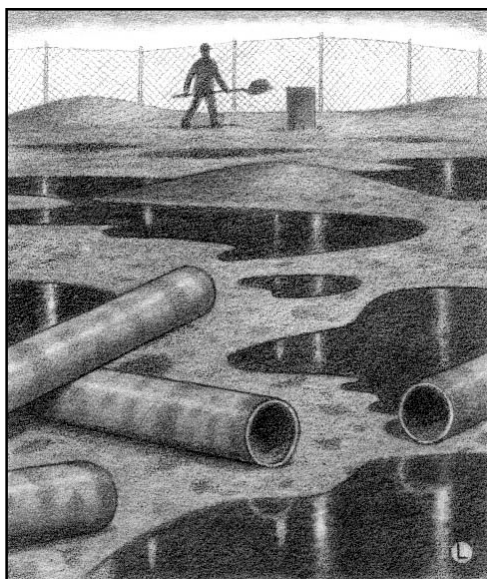
EPA HINDERS URBAN CLEANUPS

By Dana Joel Gattuso

The United States' inner cities are home to hundreds of thousands of old, abandoned industrial sites. Such eyesores—railroad yards, outmoded factories, and junk yards—have always dotted the urban landscape. In the past, however, new owners gradually took them over as market conditions changed, restoring them for new uses or tearing them down to build something else. That market-led process, although never perfect, has been completely distorted by federal intervention, first through the federal law known as Superfund and now through federal red tape that is tying the hands of city and state governments.

In 1980, alarmed by the possibility that contaminated waste sites around the country were “ticking time bombs,” Congress passed a law known as CERCLA¹ or Superfund. This law expanded liability for such sites. Even new purchasers could be held responsible for contamination that they had not caused. It also led to tough, costly standards for cleaning up these places—such as the requirement that soil be clean enough for children to eat daily, even if children are never going to be near the place.

The new rules hampered the normal market transfer of such sites, which became known as “brownfields” (in contrast to “greenfields,” sites that have never been used industrially before). Cities and states found themselves saddled with thousands of industrial locations that needed to be restored to productive use, but with major restraints on what



*The market process,
although never perfect,
has been completely distorted
by federal intervention.*

companies (such as potential buyers) were willing to do. Estimates of the total number of brownfield sites range from 450,000 to 600,000 (Upton 1999; Resources for the Future 1999). These numbers are in addition to the supposedly more seriously contaminated sites that the federal government selected for the National Priorities List.

The good news is that state and local governments have cleaned up over 40,000 of these sites (Environmental Law Institute 1998, 61), returning them to productive use. The bad news is that the Environmental Protection Agency is making the job tremendously difficult.

The states' success is due in large part to innovative measures. All but four states currently have a “voluntary” brownfield-cleanup program. That is, property owners who want to clean up can negotiate with the state and obtain financial incentives

such as grants, loans, and tax benefits. Many states have set reasonable cleanup standards, so that soil that children will never live on does not have to be clean enough to eat.

Almost all states passed laws to protect innocent parties from unfair liability. State lawmakers were well aware that potential owners and developers would not even consider redeveloping a site unless they were free from the threat of litigation for contamination of sites they had no prior involvement with.

Yet the EPA remains the enemy of these efforts. To begin with, the states' liability statutes carry little weight in federal law. Brownfields are still regulated by CERCLA and, therefore, can be subject to the same federal liability laws that govern Superfund sites.

Furthermore, the EPA's much-touted programs to "fix" the problem are mired in red tape and accomplish little. In 1997, the EPA set up the Brownfields Cleanup Revolving Loan Fund. The purpose is to provide grants to selected cities, or pilots, to help them set up revolving loan funds for financing cleanups and redevelopment efforts.

The program has grown from \$8.7 million in fiscal 1997 to \$30 million in fiscal 1999, in inflation-adjusted dollars (GAO 1998, 5; Upton 1999). Of the 142 pilot cities that received federal grants for the program, only four have actually been able to issue loans for cleanup projects. And only one of these four pilots has completed cleanup of the site (Fields 2000).

An official with the Boston Redevelopment Authority testified to Congress that the brownfields program "simply has shown to be more trouble than it is worth." After participating, Thomas Ahern concluded that he should have borrowed the necessary funds through the private sector and paid a higher interest rate to avoid the EPA's cumbersome demands: "My [federal government] rate may be lower, but on a \$25,000 loan amortized over five years, is it really worth the lower rate when I have to hire three new attorneys just to ensure I am satisfying the regulations?" (Ahern 1999).

Ongoing government audits, reports, and congressional hearings have confirmed the problem of red tape. In 1998, the EPA's own Inspector General audited the programs and concluded, "While the enthusiasm for EPA's brownfields initiative was readily apparent, the impact was less evident," and the program was actually having "little impact on actual redevelopment" (EPA 1998, 9).

At one pilot project site reviewed in the report, city officials estimated that it would take 50 years to clean up and redevelop the site. The reason was federal requirements, including rules for community involvement and detailed land use plans that divert funds and delay cleanup (EPA 1998).

Investigators found that the cost of meeting these requirements consumed the bulk of funding

that was supposed to go toward actual cleanup preparation. For example, out of \$1 million authorized to assess the degree of contamination at five pilot sites, only \$65,000—6.5 percent—was actually spent on assessing the sites. The rest was spent on community involvement and inventory list requirements. The audit's findings were consistent with testimony presented last fall by city and state officials before the House Subcommittee on Oversight and Investigations hearings.

What is to be done? First, the federal government should de-link brownfield cleanup activities from the failed CERCLA requirements. General Accounting Office reports have identified CERCLA as "one of the major disincentives to redeveloping brownfields," (GAO 1996, 1) and stated that the federal law "make[s] brownfields difficult to redevelop..." (GAO 1997, 2). Yet the Clinton administration has opposed every past legislative effort to change CERCLA liability requirements.

Once brownfields are removed from CERCLA liability, the EPA should get out of the brownfields business altogether. In the words of the National Environmental Policy Institute (1999, 47), "the principal assistance that the federal government might provide

at a state-led cleanup is no action at all. In fact, the greatest need at these sites is some type of assurance that the federal government will not second-guess state and local cleanup decisions."

Note

1. The full name is the Comprehensive Environmental Response, Compensation, and Liability Act of 1980.

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Government

audits, reports, and congressional hearings have confirmed the problem of EPA red tape.

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Dana Joel Gattuso is an adjunct scholar with the Competitive Enterprise Institute. This article is based on her report "Revitalizing Urban America: Cleaning Up the Brownfields" (July 2000), available from CEI and at www.cei.org.

letters to the editor

REACTIONS

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Why Zoning?

Samuel Staley offers proposals for reforming municipal land use zoning ("Reforming the Zoning Laws," June 2000). His proposals fail to come to grips with the real issue, which is the justification for zoning laws.

In a society that claims to value freedom, substitution of government coercion for individual land use decisions and mutually voluntary transactions requires strong justification. It should be shown that some important social problem or market inefficiency exists that can only be solved by such regulation and not by any other form of law (such as tort law).

The logical way to demonstrate such a claim

would be by comparing land use outcomes in municipalities having zoning and in those that lack zoning. The opportunity for such comparison exists and, in fact, it has never been shown that zoning solves any social problem or improves land use. The city of Houston, Texas, has never had a zoning law, yet voluntary market processes apparently operate as efficiently in determining land uses as they do in allocating other resources.

Land uses separate naturally. Factory owners do not want their factories in residential areas, but in industrial parks near highways for ease of shipping and receiving. Retail store owners want their outlets downtown or in malls, or on busy thoroughfares, not on inner residential streets. Owners of pig farms and

sheep ranches do not wish to be in residential developments.

Where agricultural and residential land uses abut one another, it is normally because residential areas intrude on agricultural ones, not the reverse. People who buy such houses do so precisely because they wish to enjoy a “little bit of country.”

Zoning reduces the rights of private owners to determine the use of their own property. By preventing many shifts from lower- to higher-valued uses, zoning reduces economic growth and citizen well-being. In fact, regulations that restrict property uses and hence reduce property values constitute partial takings of such property. Yet these property takings through zoning regulation are almost never compensated, as the federal constitution and most state constitutions require.

What zoning does is put a set of unelected legislators in a position to sell their power to determine land uses to the highest bidders. Zoning then redistributes wealth from less organized and more honest citizens to those who are corrupt and more politically organized.

If possible, zoning should be abolished. If that is not possible, zoning commissioners should be subject to competitive elections for discrete terms of office, so that they are at least partially accountable to the general public.

*James Rolph Edwards
Montana State University-Northern
Havre, Montana*

Setting the Record Straight

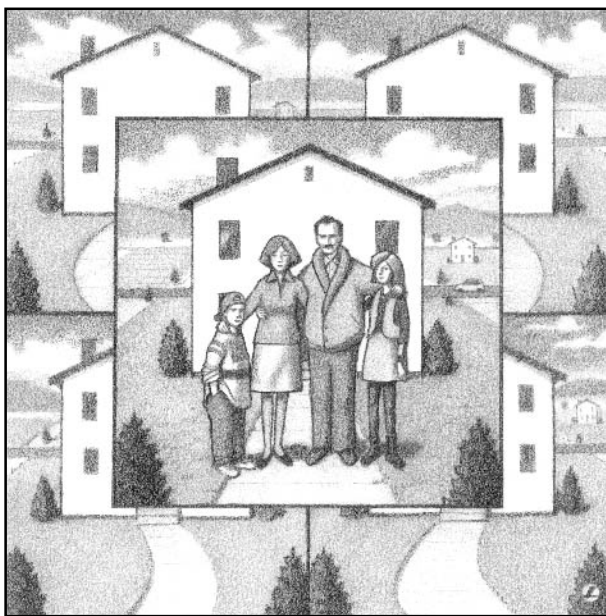
Ronald Utt (“Subsidies and the Suburbs,” June 2000) is right that interstate highways followed rather than led suburbanization trends. But he omits the commuter rail and parkway construction by the government back in the 1920s and 1930s. Would Connecticut’s Gold Coast have become a Wall Street broker destination without the Merritt Parkway? Would Quincy have become an extension of Boston without the MTA? I doubt it.

Sam Staley (“Reforming the Zoning Laws”)

failed to comment on performance-standard zoning. This type of zoning, shunned by professional planners, sets requirements for calculable impacts like noise, lighting, and traffic. It makes a lot more sense than creating little ghettos of residences here and business there.

As for sprawl in general, someone ought to point out that the typical suburb creates a lot more active biomass in the form of trees, shrubs, and lawns than does the typical farm field. Fly over most of suburban Chicago and all you see are tree tops.

*Martin S. Harris, Jr.
Vergennes, VT*



More Evidence

I want to support the observation by Tom Burnett about Anaconda, Montana (September 2000). I live in Pottsville, in northeastern Pennsylvania, which is one of the old anthracite coal mining towns. Many of these towns are characterized by small lots (ours is 20' x 60'), with many duplexes and/or row homes.

The close proximity of the homes still does not encourage use of walking or public transportation because most of the stores are located in the malls, rather than downtown. (Downtown stores lack parking even for employees). The compact design of the town is more of a headache than a benefit.

The problem with the public transport in this area is one of availability and choice. It does not go everywhere people want to go and it does not run much on weekends and evenings. A car gives people many choices they would not otherwise have. The smart growth movement seems to ignore this.

Being able to drive on good roads allows many individuals in northeastern Pennsylvania access to better jobs; many commute long distances. Certainly having a long commute is not desirable, but it is better than no job or dead-end jobs. Thus many people in this area have better lives than they otherwise would.

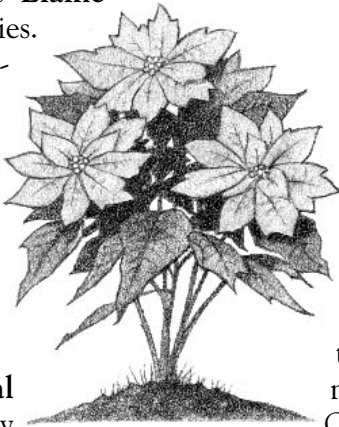
*Daniel H. Vice
Instructor
Pennsylvania State University at Hazleton*

What's new

PERC UPDATE

The revised edition of *Free Market Environmentalism* by **Terry L. Anderson** and **Donald R. Leal** is being published this month by Palgrave, a joint venture of St. Martin's Press and MacMillan Press. When first published in 1991 by the Pacific Research Institute and Westview Press, *Free Market Environmentalism* introduced a new framework for addressing environmental problems. It has been used as a supplementary text in many natural resource economics classes. Now, Anderson and Leal have updated their book with new examples and additional analysis. "I really like what you've done with the book and it will be perfect for students in our summer seminars," writes **Elaine Hawley** of the Institute for Humane Studies.

This edition of *Free Market Environmentalism* (ISBN:0-312-23502-X) is available in hardback (\$59.95) and paperback (\$18.95). To purchase the book at a 20% discount, you may call Palgrave at 800-221-7945, ext. 270.



PERC senior associate **Don Leal** spoke at the Forum on Public Lands Policy of the annual convention of the National Association of Realtors in San Francisco. His topic was market solutions to public lands mismanagement. **Richard Stroup** debated ways to protect salmon at Gonzaga University and the University of Idaho and spoke at a legal conference in Orlando on property rights and environmental issues. **Jane Shaw** discussed misleading environmental information at Campbell University, Buies Creek, NC, the Locke Foundation in Raleigh, and the Smith Center at California State University at Hayward.

To introduce western state legislators to PERC's ideas about free markets and environmental federalism, PERC's staff is preparing a series of booklets on

sprawl and smart growth, water, public lands, and wildlife. Each booklet will recommend ways to address these issues while respecting property rights and avoiding many of the shortcomings of command and control regulations. PERC will disseminate these booklets early next year at a series of briefings in Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming. Key legislators have been mobilized to serve as catalysts. Research associate **Matthew Brown** directs the project, which is sponsored by the E. L. Wiegand Foundation of Reno, Nevada.

Research associate **Bishop Grewell** will be spending a four-month sabbatical at the Competitive Enterprise Institute in Washington, D.C., writing a book on eco-entrepreneurs in the agricultural sector. **Clay Landry** spoke with the Washington Water Policy Alliance and the Washington Farm Bureau about water markets and the 2001 legislative agenda. In Orlando, Landry participated in a panel discussion on implementing water markets in Florida at the annual meeting of the American Waterworks Association. He addressed the western section of the Council of State Governments in San Diego. He co-directed a tour showing visitors from the United Kingdom how water markets can serve environmental protection. The program was conducted in conjunction with the Sand County Foundation and the Oregon Water Trust.

Bruce Yandle has lectured to congressional staffers on Capitol Hill about public choice and spoke at the Philanthropy Roundtable in Fort Worth. He presented a paper on "taxation as regulation" at the Southern Economics Association. **Roger Meiners**

spoke at a conference on higher education sponsored by the Pope Center in Raleigh, NC.



A new book, *The Politics and Economics of Park Management*, edited by **Terry L. Anderson** and **Alexander James**, is being published this month by Rowman & Littlefield. Contributors discuss parks around the world that have changed from the typical “fortress park” to one that involves local people. Parks in both developed and developing countries are examined. Contributors include in addition to the editors **Stephanie Presber James**, **George R. Hughes**, **Donald R. Leal**, **Holly Lippke Fretwell**, **Sam Kanyamibwa**, **Michael Green**, **Javier Beltrán**, **Mariano L. Merino**, **Christopher Bruce**, **Michael ’t Sas-Rolfes**, **Peter Fearnhead**, and **Karl Hess, Jr.** **Dianna Rienhart** served as PERC’s production manager for the book.



Three PERC fellows joined us this fall. **Nick Parker** is pursuing his master’s degree in applied economics at Montana State University. His areas of interest include natural resource economics and the economics of bureaucracy. Parker previously worked for the Oregon Council of the American Electronics Association and he continues to work as a consultant for the accounting firm KPMG, LLP in Portland, OR. While at PERC, he is studying the economics of state wildlife policy under the supervision of **Dean Lueck**.

Iryna Piontkivska has a master’s degree in economics and a bachelor’s degree in environmental science from the National University of Kiev-Mohyla Academy. Her research at PERC, supervised by **Richard Stroup** and **David Gerard**, deals with the relationship between economic growth and environmental degradation, especially in countries undergoing a transition from centrally planned to market economies.

Imelda (Dada) V. Bacudo is currently working as an assistant environmental economist for a project of the Philippine government’s Department of Environment and Natural Resources. Working with grassroots communities, she is helping to establish several protected areas in the Philippines and set up fee systems for resource users. At PERC, she is assessing the introduction of resource user fees in a developing country, working with **Don Leal**. Bacudo has a bachelor’s degree in communications from the University of the Philippines.

Eric Noyes and **Jane Shaw** co-directed a Liberty Fund colloquium on “Property Rights, Human Nature, and the Environment.” Tom Bethell’s book *The Noblest Triumph* was the centerpiece of the discussion. Senior Associate **Andrew Morriss** directed a Liberty Fund colloquium on “Property Rights in the West.” This conference featured selections from a manuscript in process by **Terry Anderson** and **P. J. Hill**.



A new *PERC Policy Series* paper, “The Greening of Foreign Policy,” by **Terry L. Anderson** and **J. Bishop Grewell**, has just been published. It distills the major themes from the forthcoming Hoover Institution Press book, *The Greening of U.S. Foreign Policy*, edited by Terry L. Anderson and **Henry I. Miller**: As environmental issues infiltrate international relations, trade is undermined and traditional diplomacy is diffused and less effective.



Terry Anderson keynoted an Arizona Council on Economic Education seminar for teachers in Scottsdale, Arizona. This month he lectures at the Law and Organizational Economics Center Judges Institute in Florida directed by **Henry Butler** of the University of Kansas.



“An Economic Guide to State Wildlife Management” is a new paper by Montana State University professor **Dean Lueck**. It analyzes state wildlife agencies as bureaucratic organizations and offers economic insights as these agencies confront changing conditions. The paper, one of PERC’s new *Research Studies*, is available on our Web site (www.perc.org).



In September, PERC held its first annual retreat on “What is Free Market Environmentalism?” for board members and guests at Mountain Sky Guest Ranch near Bozeman. Although the season’s first snowstorm pummeled the visitors, giving them a taste of the “Montana experience,” everyone enthusiastically pulled together to listen and learn. Guests heard presentations by PERC staffers and were entertained by rock-and-roll pianist **Chuck Leavell**, who manages a prize-winning private tree farm in Georgia.

EXCERPT

A PEOPLE-FRIENDLY ZOO

By Karl Zinsmeister

In 1991, the Fort Worth Zoo—then a middling, city-run facility—was almost forced to close for lack of funds. Along came co-chair Ramona Bass who suggested privatizing the zoo. Soon, the place was indeed shifted to private management and funding, and today it is recognized as one of the top zoos in the United States.

What's even more striking than its turnaround is the new *message* being projected by the facility. In most places today, zoogoers "are receiving an inordinate amount of negative information," explains one Fort Worth Zoo document. "We really want people to question the things they've been told."

Specifically, these iconoclastic Texas naturalists are preaching that "man is an integral part of the natural world, not a separate entity," and that the main biological story today is "not a tale of imminent doomsday, but of dynamic environmental successes."

Ramona Bass and other zoo directors emphasize the importance of private property in managing the environment successfully, and favorably portray the coexistence of animals with ranchers, hunters, builders, and everyday people. The zoo's advisory board even includes economists, paper company wildlife experts, and professors of agriculture.

Remarkably, one soon-to-open section of the zoo will house the zoo's black bears in a facsimile of an abandoned Texas lumbering camp. The exhibit will include a stream snaking by felled logs, disused tools, even a deserted Caterpillar tractor for the bears to frolic around. Rather than portraying the sawmill as a "scar," it will be seen as a stage of human development that many animals have adapted to.

With extensive support from private individuals and businesses and extremely imaginative programs, the Fort Worth Zoo is a thrivingly unorthodox institution with no peer anywhere in the country.

This excerpt is taken from "Land of the Meat Eaters," by Karl Zinsmeister, The American Enterprise (October/November 2000).

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