

The Myths of “Green Capitalism”

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Today environmental politics in the U.S. appears hopelessly polarized. Liberals and progressives try to sustain and occasionally strengthen environmental legislation, while those on the right are inalterably opposed, even seeking to defund core institutions such as the EPA. This extreme polarization, where anti-environmentalism has become part of the cultural as well as the political apparatus of the right, is a recent, and hopefully short-lived, phenomenon.¹

In the early years of the environmental movement Republican politicians, allied with outdoor enthusiasts and some in the corporate world, often supported the passage of environmental laws. For some it was mainly because they preferred a predictable and relatively malleable set of uniform rules to what in the late 1960s was a trend toward increasingly stringent regulations and punishing lawsuits at the state and local levels. But for others on the right end of the spectrum, something simply had to be done about out-of-control pollution that made it unhealthy to breathe the air, drink the water, or live downstream from polluting industries.²

The backlash began almost as soon as the various environmental agencies and laws became established, and continued under the influence of both political parties. In the late 1970s Jimmy Carter established a Regulatory Council, aimed at “streamlining” federal regulations at the behest of affected parties. But it was the administration of Ronald Reagan that first attempted to dismantle environmental regulations. His EPA administrator became notorious for backroom deals with industry officials and ultimately resigned, facing charges of contempt of Congress. Reagan’s Interior Secretary, the notorious James Watt, sought a massive transfer of federal lands into the control of private interests.

By the time the elder George Bush took office in 1988, the reaction to Reagan’s anti-environmental excesses had nearly reached a fever pitch. Concern for the environment was at a long-time high; the annual budget of the ten largest U.S. environmental groups had increased more than 50-fold during the 1980s, from less than \$10 million to \$514 million.³ Pollsters reported that Americans by large margins supported more environmental protection, even if it meant higher taxes or local job losses.⁴ By 1990, as environmentalists were gathering to celebrate the twentieth anniversary of the first Earth Day, a new kind of environmental politics was emerging from America’s boardrooms, an overtly corporate environmentalism that extolled the virtues of the capitalist “free market” and suggested that adjustments in personal lifestyles through “green” consumerism were a better way to curtail pollution and further environmental goals while simultaneously increasing profits. If this seems familiar, it is because these same approaches continue to shape today’s environmental policy discussions.

Early “free market” interpretations of environmentalism were advanced by corporate executives such as DuPont CEO Edgar Wollard and Jim Rogers of Duke Power, as well as neoliberal economists such as Julian Simon, who advised the right-libertarian Cato Institute. Paraphrasing Simon, Terry Anderson of Stanford’s Hoover Institution described “free market environmentalism” as a way to show how “human ingenuity stimulated by market forces finds ways to cope with natural resource constraints.”⁵ He continued:

In general, free market environmentalism emphasizes the positive incentives associated with prices, profits and entrepreneurship, as opposed to political environmentalism, which emphasizes negative incentives associated with regulation and taxes.⁶

Bush, Senior's environmental agenda was crafted by a team headed by Harvard economist Robert Stavins, who directed a think-tank called Project 88 with the goal of proposing new environmental initiatives that featured market incentives as a supplement to regulation. Project 88 joined environmentalists, academics, and government officials with representatives of Chevron, Monsanto, ARCO, and other major corporations, and its signature policy accomplishment was the 1990 overhaul of the Clean Air Act, a measure that introduced into U.S. law for the very first time the practice of allowing companies to buy and sell the "right" to pollute.⁷

The issue of the day was acid rain, largely caused by emissions of sulfur dioxide from Midwestern power plants that drift eastward and create conditions that render soils, rivers, and lakes too acidic to sustain life. Bush's Clean Air Act amendments allowed companies that reduced emissions of sulfur dioxide at one facility to receive credits redeemable against higher emissions elsewhere. Those credits could be sold at a profit to other companies that were out of compliance with emissions standards or wished to build new power plants. It was the first attempt to introduce emissions trading at the national level, the first to establish allowances that could be traded freely as a commodity, and the first time this approach was codified into law as the centerpiece of a major regulatory program.

To this day, market enthusiasts extol the EPA's acid rain program as a successful example of how emissions trading can help lower the costs of environmental compliance. But in practice, it demonstrated some predictable features of an essentially artificial new commodity market, including overwhelming dominance by major players and distorting trade-offs between market behavior and regulatory compliance. In the end it confirmed that regulation remains a far more efficient means of achieving environmental goals. State utility regulators, in this instance, played a far more crucial role in the successes of the acid rain program than the permit trading system, as did unrelated incentives that reduced the cost of low-sulfur coal. Several European countries achieved much faster reductions in sulfur emissions without a trading program. But for the program's advocates, most notably Fred Krupp, the entrepreneurial and adamantly pro-business executive director of the Environmental Defense Fund, its main accomplishment was to set the stage for a far more ambitious trading program: a system of global, tradable allowances for emissions of greenhouse gases that eventually became enshrined in the UN's Kyoto Protocol.⁸

Origins of Emissions Trading

When then-Vice President Al Gore addressed the United Nations climate conference in Kyoto in 1997, he proposed that the U.S. would sign on to a new agreement to reduce greenhouse gas emissions under two conditions: that the mandated reductions be roughly half of those originally proposed, and that they be implemented through the market-based trading of emissions allowances among various companies and between countries. Under what came to be known as the "cap-and-trade" model, companies that fail to meet their quota for emission reductions can readily purchase the difference from another permit holder that reduced its emissions faster, or invest in nominally emissions-reducing projects overseas. While the U.S. never adopted the Protocol, the rest of the world has had to live with the consequences of Gore's intervention in Kyoto, which created what journalist George Monbiot has aptly termed "an exuberant market in fake emissions cuts."⁹ The European Union's Emissions Trading System, for example, has resulted in huge new subsidies for polluting corporations, with only modest reductions in emissions and a market price that now hovers in the range of just 2-3 euros per ton of carbon dioxide.¹⁰

An attempt to introduce carbon trading into U.S. law during 2009-10 largely fell victim to right-wing tax-phobia. Ironically, those opposed to any form of climate legislation chose to depict this market-oriented alternative as simply another variant of a carbon tax—precisely the approach that many economists view as more likely to achieve genuine reductions, but was dismissed by pundits as

politically unfeasible. Many aspects of the proposed U.S. trading scheme contributed to its demise, as we will see, including increasing skepticism on the part of many environmentalists. But first, it is necessary to examine the intellectual roots of this approach.

The theoretical origins of carbon trading go back to the early 1960s, when corporate managers were just beginning to consider the consequences of pollution and resource depletion. Since the work of Arthur Pigou at the University of Cambridge in the 1920s, economists were aware of environmental pollution as an economic “externality” that could be addressed through a variety of taxes and fees. Chicago School economist Ronald Coase published a paper in 1960 that directly challenged this view and instead suggested a direct equivalence between the harm caused by pollution and the loss of business that could result from regulating pollution. “The right to do something which has a harmful effect,” argued Coase, “is also a factor of production.”¹¹ He proposed that measures to regulate production be evaluated on par with the value of the market transactions that those regulations aim to alter, arguing that the market should always determine the optimal allocation of resources.

The Canadian economist J.H. Dales, widely acknowledged as the founder of pollution trading, took the discussion two steps further. On one hand, he reinforced the Pigovian view that charging for pollution via a disposal fee or tax is more efficient than either regulation or subsidizing alternative technologies. But then, as an extension of this argument, Dales proposed a “market in pollution rights” as an administratively simpler and less costly means of implementing pollution charges. “The pollution rights scheme, it seems clear, would require far less policing than any of the others we have discussed,” Dales suggested—a proposition strikingly at odds with the world’s experience since Kyoto.¹² In 1972, California Institute of Technology economist David Montgomery presented a detailed mathematical model, purporting to show that a market in licenses to pollute indeed reaches a point of equilibrium at which desired levels of environmental quality are achieved at the lowest possible cost.¹³

By the mid-1970s, the new U.S. Environmental Protection Agency (EPA) was actively experimenting with pollution trading, initially through brokered deals where the agency would allow companies to offset pollution from new industrial facilities by reducing existing emissions elsewhere or negotiating with another company to do so. But it appears that the real breakthrough was a 1979 *Harvard Law Review* article by Stephen Breyer, now considered the dean of the liberal wing of the U.S. Supreme Court. Embracing the view of the most adamant free-marketeers, Breyer proposed that regulation is only appropriate insofar as it helps replicate the market conditions of a “hypothetically competitive world.” Addressing a range of problems from pollution control to airline regulation, Breyer introduced a broader array of policymakers to the concept of “marketable rights to pollute,” as a feasible substitute for regulation.¹⁴

By the mid-1980s, the well-known Environmental Defense Fund (EDF) was in the midst of an identity crisis. Competitors such as Natural Resources Defense Council and the Sierra Club’s legal fund (now Earth Justice) were proving more successful in the area of environmental litigation, where EDF had also been a pioneer. Economists on the staff of EDF began to take the reins, and recruited Fred Krupp, the organization’s newly appointed executive director, to their side.¹⁵ Krupp’s opening salvo was a 1986 op-ed in the *Wall St. Journal* advocating a solutions-oriented “third wave” of environmentalism.

Before long, EDF was working closely with corporations from 3M to McDonald’s to help reform some of their most wasteful practices, and proposing market substitutes for regulation in areas from air pollution and fisheries preservation to federal mining and grazing policies.¹⁶ These were all pitched as possible extensions of the “success” of the acid rain program. During the Clinton years, EDF supported the environmental side agreements to NAFTA and proposed a cost-benefit approach to endangered species listings. In 2006, they were the main initiator of an alliance, the U.S. Climate

Action Partnership (USCAP) that joined environmental groups with some of the largest, most polluting corporations in an attempt to influence federal climate policy.¹⁷

Trading Carbon

The limitations of the EPA's acid rain program didn't stop EDF's senior economist, Daniel Dudek, from proposing early on that the limited trading of acid rain emissions in the U.S. was an appropriate "scale model" for a far more ambitious plan to trade global emissions of carbon dioxide and other greenhouse gases.¹⁸ Al Gore endorsed the idea in his best-selling 1992 book, *Earth in the Balance*, and Richard Sandor, then the director of the Chicago Board of Trade, North America's largest commodities market, co-authored a study for the UN Conference on Trade and Development (UNCTAD) that endorsed international emissions trading.¹⁹ Sandor went on to found the now-defunct Chicago Climate Exchange, which at its peak of activity engaged nearly 400 international companies and public agencies in a wholly voluntary U.S. carbon market. Neoliberal economists like Sandor, Stavins, and Dudek all significantly shaped the eventual framework for Kyoto's carbon reductions to be implemented through emissions trading and offsets.

Ever since Kyoto, carbon offsets—mainly overseas purchases of anticipated future emissions reductions—have become a central element of the "market" approach to global warming. Larry Lohmann of the UK's CornerHouse research group has demonstrated in detail how such efforts to drive investments in nominally emissions-reducing projects in other parts of the world have been plagued by a virtual tsunami of unintended consequences. For example carbon offsets have subsidized the conversion of native forests into monoculture tree plantations, and lengthened the lifespan of polluting industrial facilities and toxic landfills in Asia and Africa in exchange for only incremental changes in their operations.²⁰

Offsets often perpetuate the very inequalities that stand in the way of a more just and sustainable world. A 2007 German study of UN-approved carbon offset projects reported that at least 40 percent, and as many as 86 percent, of all offset-funded projects would likely have been carried out anyway, a challenge to the claim of "additionality" that is supposed to determine which projects are eligible for certified offset credits.²¹ Even if they do occasionally support beneficial projects, carbon offsets allow corporations to postpone investments in necessary emissions reductions at home, and ultimately represent a gaping hole in any mandated "cap" in carbon dioxide emissions. They are a means for polluting industries to continue business as usual while contributing, marginally at best, to overall emissions reductions.

In 2007 USCAP, the EDF-initiated alliance of corporate-friendly environmental groups with corporations such as Alcoa, BP, Dow and DuPont, Duke Energy, and the "big three" U.S. automakers, began their campaign to shape the Obama administration's climate policies. The group's core principles became central features of the climate bill that passed the U.S. House two years later: an emphasis on long-range vs. near-term goals; trading of emissions allowances; free distribution of allowances to polluting corporations; and a generous offset provision allowing companies to defer domestic emissions reductions well into the future.²²

By the time the House passed its cap-and-trade climate bill in June of 2009, it contained billions of dollars in special-interest favors, prohibited the EPA from using the Clean Air Act to regulate greenhouse gas emissions, and would have allowed companies to meet their obligations to reduce carbon pollution entirely through the purchase of offsets for at least 20 years.²³ The version of the bill that eventually died in the Senate, initially developed by Senators John Kerry, Joe Lieberman, and Lindsey Graham, featured even more blatant giveaways to the oil, coal, and nuclear industries.²⁴ An in-depth study of the entire debacle by Harvard sociologist Theda Skocpol correctly placed much of the blame for the demise of the climate bills on the entire USCAP approach, which ultimately led

to a bill that hardly anyone could enthusiastically support.²⁵

While the prospects for meaningful climate legislation in the U.S. have faded for now, market-oriented approaches to the environment continue to thrive, both in the corporate world as well as in more progressive circles. In the 1990s, green business pioneer Paul Hawken likened businesses to living organisms and embraced Pigovian taxes as a “pathway to innovation.”²⁶ He suggested that the proper mix of pollution taxes, new technologies, and improved measures of economic well-being could help make business a real force for social and environmental progress. Hawken himself has since become more critical of the market, placing his hopes instead on a new constellation of social and environmental movements.²⁷ But many others still follow in his original footsteps, arguing that socially responsible investing and “triple bottom lines” (monetary, social, and environmental) can sufficiently transform the business world. Environmental economists have come up with far more sophisticated measures of social and environmental costs and benefits, seeking to substitute more nuanced measures of “genuine progress” for conventional GDP calculations.

All these approaches, however, serve to obscure the inherently anti-ecological character of capitalism. A system that concentrates political and economic power in the hands of those who pursue the accumulation of capital without restraint is going to continue to demand expansion and growth, however skilled we may become at measuring our ecological footprint. The imperative to grow and accumulate in turn redoubles the economy’s impacts on the earth’s threatened ecosystems. While environmentalists continue to work toward feasible near-term solutions to pollution, biodiversity loss, and the destabilization of the climate, it is also essential to look forward toward a genuinely ecological and democratic alternative both in economics and politics.

Footnotes

1. Gary Bryner, “Failure and opportunity: Environmental groups in U.S. climate change policy,” *Environmental Politics* Vol. 17, No. 2 (April 2008), 319-336.

2. The origins of U.S. environmental laws and shifting politics of regulation are described in Brian Tokar, *Earth for Sale: Reclaiming Ecology in the Age of Corporate Greenwash* (Boston: South End Press, 1997), 55-71.

3. Mark Dowie, *Losing Ground: American Environmentalism at the Close of the Twentieth Century* (Cambridge: MIT Press, 1995), 41.

4. Richard Berke, “Oratory of Environmentalism Becomes the Sound of Politics,” *New York Times*, April 17, 1990.

5. T. L. Anderson and D. R. Leal, *Free Market Environmentalism* (New York: Palgrave, 2001), 3.

6. Anderson and Leal, 4.

7. *Project 88: Harnessing Market Forces to Protect Our Environment*, Washington, DC (1988). For a fuller account for the emergence and consequences of the Clean Air Act amendments, see Tokar, *Earth for Sale*, 35-41.

8. That this was an explicit goal of the acid rain program is demonstrated by trading advocate and *Business Week* deputy editor Eric Pooley in *The Climate War: True Believers, Power Brokers, and the Fight to Save the Earth* (New York: Hyperion, 2010), 77-8. For an outline of the views of market advocates in the 1990s, see Tokar, *Earth for Sale*, 41-5.

9. George Monbiot, "We've Been Suckered Again by the U.S. So Far the Bali Deal is Worse than Kyoto," *The Guardian*, December 17, 2007.
10. Patrick Bond, "Carbon trading nearly died in Europe this week," January 26, 2013 (via email). For background, see Joshua Chaffin "Emissions trading: Cheap and dirty," *Financial Times*, February 13, 2012.
11. R.H. Coase, "The Problem of Social Cost," *Journal of Law and Economics*, Vol. 3 (1960), 44.
12. J.H. Dales, *Pollution, Property & Prices* (Toronto: University of Toronto Press, 1968), 97.
13. W. David Montgomery, "Markets in Licenses and Efficient Pollution Control Programs," *Journal of Economic Theory*, Vol. 5 (1972), 395-418.
14. Stephen Breyer, "Analyzing Regulatory Failure, Mismatches, Less Restrictive Alternatives and Reform," *Harvard Law Review*, Vol. 92, No. 3 (1979), 547-609.
15. The story of Krupp's recruitment to the ranks of market enthusiasts is recounted in Pooley, *The Climate War*, 62-71.
16. Frederic D. Krupp, "New Environmentalism Factors In Economic Needs," *Wall Street Journal*, Nov. 20, 1986.
17. On EDF's increasingly corporate-friendly outlook, see Tokar, *Earth for Sale* and Pooley, *The Climate War*.
18. Daniel Dudek, "Creating Self-Financing Environmental Markets," *Environmental Finance*, Winter 1991-2, 512.
19. Cited in T. Gilbertson and O. Reyes, *Carbon Trading: How it works and why it fails* (Uppsala: Dag Hammarskjöld Foundation, 2009) 22.
20. Larry Lohmann, *Carbon Trading: A Critical Conversation on Climate Change, Privatization and Power* (Uppsala: Dag Hammarskjöld Foundation, 2006).
21. Lambert Schneider, "Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement" (Berlin: Öko-Institut, 2007).
22. For example, "Summary Overview: USCAP Blueprint for Legislative Action," accessed from www.us-caorg/blueprint, January 16, 2009.
23. These provisions are detailed in Brian Tokar, *Toward Climate Justice: Perspectives on the Climate Crisis and Social Change* (Porsgrunn, Norway: New Compass, 2010), 36-44.
24. For an account of the U.S. Senate negotiations on the climate bill, see Ryan Lizza, "As the World Burns: How the Senate and the White House missed their best chance to deal with climate change," *New Yorker*, October 11, 2010.
25. Theda Skocpol, "Naming the Problem: What It Will Take to Counter Extremism and Engage Americans in the Fight against Global Warming" (Cambridge: Harvard University, January 2013).
26. Paul Hawken, *The Ecology of Commerce: A Declaration of Sustainability* (New York: Harper Business, 1993), 83.

27. Paul Hawken, *Blessed Unrest: How the Largest Movement In the World Came Into Being and No One Saw it Coming* (Viking Press, New York, 2007).