

# Earth Day and Property Rights

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*This article is the fifteenth in a year-long series about economics and holidays.*

April 22<sup>nd</sup> is the 40<sup>th</sup> anniversary of Earth Day, a holiday that celebrates the earth and our relationship to it. Earth Day was the brainchild of Senator Gaylord Nelson, and began as a teach-in—a popular form of political activism on university campuses in the 1960s and 1970s. Earth Day is an occasion for celebrating the earth, protecting the earth, and enjoying the earth in the most pleasant season of the year in the northern hemisphere.

Every academic discipline has something to say about the relationship between human beings and the natural world. The field of environmental economics is relatively new. Earlier economists took the bounty of nature for granted, a source of food and raw materials that made it possible for capital and labor to create goods and services for human consumption. Most of their attention was focused on the scarcity of capital and skilled labor (human capital) as a way to generate growth and a higher standard of living. The founder of modern economics, Adam Smith, titled his monumental 1776 classic *An Inquiry into the Nature and Causes of the Wealth of Nations*. That focus on growth and wealth accumulation has been central to economic inquiry ever since.

As population grew, the seeming limitless resources of nature began to look more like the other scarce resources. Air is not endless, nor can it absorb too many pollutants without deterioration in quality. Competition for scarce water resources and preserving water quality is a challenge in many parts of the world. As forests are bulldozed and prime agricultural land is converted to subdivisions, there is growing concern about whether the planet can sustain the current human population. Loss of wildlife habitat and species diversity, overfishing, loss of soil nutrients, saltwater intrusion into coastal aquifers are all challenges to human society to rethink our relationship to the earth that makes human life possible.

When resources are abundant—vacant land, water, fishing rights—there is little concern about ownership. But once there are more would-be users of a common property resource than the resource can serve, someone has to judge between the competing claims. Someone has to define, protect, and enforce property rights—the right to buy or sell, the right to use it in particular ways, and the restrictions on that use in order to protect the rights of non-owners. The market is very good at managing the exchange of rights to property, but it cannot define them. Defining, protecting, and enforcing property rights is the most basic function of government.

The Homestead Act in the early days of the United States is one example of how governments define property rights. Settlers were moving west in the 19<sup>th</sup> century, in response to the Louisiana Purchase, and someone had to determine who owned of particular parcels of land. Families would be reluctant to build a home, start a farm, and make other decisions if they were uncertain about their ability to reap the benefits. They needed not only protection of property rights but also protection from the natives

they were sometimes displacing and from outlaws of various kinds. In exchange for protection and assurance of the right to the land, the government set down rules about the amount of acreage homesteaders could own and required settlement for at least five years. The government also reserved certain parcels of land to provide shared space for schools, churches, and other communal spaces that would ensure the development of towns. The government also assigned responsibilities to those who received the rights. Today, those responsibilities include not only paying property taxes but also, in many communities, keeping your property well-maintained and abiding by zoning restrictions that may prevent you from raising chickens in the city or building a bowling alley in a residential neighborhood.

Once property rights are defined, if markets are working well and the number of people involved is small, any piece of property should wind up in its highest and best use, regardless of who has the initial ownership claim. If your homestead turned out to be sitting on top of valuable minerals, you could probably be persuaded to sell it and move to another property that doesn't have that attraction. If you want to use a property for farming and someone else wants to use it to build a factory or some other enterprise, the one who values it the most (indicated by the price offered and accepted) will wind up with the rights to use that property, regardless of who got the initial allocation. This insight is known to economists as the Coase Theorem, and its author, Ronald Coase, won the Nobel Prize in economics for that insight (and other contributions to economics).

Land is not the only scarce natural resource that requires definition of property rights. In the eastern U.S., rights to water follow the English riparian tradition, granting the right to use a stream to adjacent owners and the right to underground water to those who live above it. In the west, where water is scarcer relative to demand, there is much more conflict over water rights. Assigned rights to draw on the flow of the Colorado River as it wends its way through multiple states exceed the actual amount of water available. More recently, property rights have been assigned to use the air for emissions, embodied in the controversial cap and trade legislation.

Air, and to a lesser degree water, are forms of common property. Because the rights to common property are often not clearly defined or assigned, it tends to take a beating. It's not just air pollution or water pollution or excess withdrawals from a shared watershed. It's the broader idea that everybody's property is nobody's property, so no one has an incentive to take care of it. Common agricultural land is likely to be neglected and over grazed, while private parcels are carefully maintained to ensure maximum yield and sustainability.

When there are competing users or uses for common property, particularly valuable common property, that property needs to have defined ownership. It may be owned by the public (=government) which is responsible for its management, or it may be assigned to private owners who then have a financial incentive to maintain it and use it wisely. That insight into the issue of common property resources and competing uses is one contribution from the science of economics that we can celebrate on Earth Day.

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