

The Natural Wealth of Nations: Harnessing the Market for the Environment

by David Malin Roodman. New York: W.W. Norton & Company, 1998. Paperbound, 304 pages.

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(Editor's note: The review initially was posted on the internet site, The Progress Report, <http://www.progress.org/>. Hanno Beck is the webmaster for a number of Progress web sites, including Common Ground-USA's, <http://www.progress.org/cg/>.)

Harness The Markets

The year 1998 has seen a number of new materials advocating major, environment-friendly changes in taxation. This spring saw the publication of The Losses of Nations, a book whose title is a play on Adam Smith's classic which has come to be known as The Wealth of Nations. Shortly afterward came Tax Shift, and then the Citizens' Guide to Environmental Tax Shifting. Reviews of each of these works can be found in the Progress Report Archive <http://www.progress.org/archive/>.

Now another book has appeared -- this one, called The Natural Wealth of Nations, also plays on Adam Smith's title. David Malin Roodman of the Worldwatch Institute has pulled together facts and figures about fiscal policies from all over the world that hurt -- or enhance -- the health of our natural environment. Roodman shows how market mechanisms can play a big role in healing our environment, once pointed in the right direction.

Let's first be clear about what this new, excellent book does not attempt. This book is not an introduction to the "green tax shift" topic -- for that, you'll want the Citizens' Guide mentioned above. Roodman's book is directed to readers who are primed and ready for a lot of heavy substance -- the facts and figures that so strongly support environmentally-sound fiscal reforms.

Also, the book does not try to present the topic in a playful way that supplies the reader with enthusiasm; if you want lots of diagrams, illustrations and lively talk, try Tax Shift or the Citizens' Guide. Roodman's book has a few charts, but mostly what you see is page after grey page of text. The author is counting on your own interest in the subject to motivate you to turn each page. However, we are not claiming that Natural Wealth is dull -- Roodman actually has an excellent writing style and sticks to it throughout. Like a friendly

professor speaking to you after class, Roodman makes point after point in a very clear way. Clarity may actually be this book's strongest feature, for talk about taxation leads quickly into conflicting numbers, principles, politics and other messy areas, but Natural Wealth provides you with a sturdy, reliable guide through the thickets.

So what does the book say? Roodman examines three basic areas. First, he surveys how governments actually subsidize and reward acts of environmental pollution through handouts, tax breaks and other mechanisms. Second, he considers environmental tax shifting, the collection of resource rents, subsidy reform and other approaches to our environmental ills. Third, Roodman treats five objections to environmentally-motivated fiscal reforms and ponders what political chances may exist for meaningful steps forward to a safer planet. The subsidy section finds over \$650 billion in environmentally-harmful annual subsidies being made worldwide. Like Henry George in his classic Protection or Free Trade, Roodman calls for making these subsidies more efficient, more visible, and more explicit as to who receives them, so that we may better evaluate their worth. George opposed all such subsidies, and Roodman too hopes that at least 90% of them can be targeted for cancellation.

Roodman's presentation of reforms is masterful. Chapter Seven will be of special interest to geonomists and geoists, for it gives a balanced and accurate summary of the rationale for capturing resource rents. Roodman's book, in this regard, joins the others mentioned above in its support for government collection of "economic rent" or unearned windfall values resulting from government-granted privilege.

An important argument in favor of capturing resource rents is missing, however, and for that you will need to see The Losses of Nations. Roodman's book does not consider the "excess burden" or "dead-weight loss" effect of distortionary taxes -- it turns out that current tax policy depresses the world economy by trillions of dollars annually, far more than even the \$650 billion in destructive subsidies pointed out earlier. Shifting from distortionary taxes to nondistortionary ones will yield enormous dividends, and because of their great size some mention

of this in The Natural Wealth of Nations would have been welcome.

In the third section of his book the author assesses objections to environmentally-motivated fiscal policy and gives more material in response. Throughout Natural Wealth you'll find examples of green tax shifts and other environmentally-motivated changes that really took place. But the skeptical reader may wonder about the relatively small size of these reforms compared to the environmental degradation still occurring around us, the huge iniquitous tax structures still in place, and the embarrassing subsidies for pollution. Roodman answers the skeptic in his final chapter, "The Political Marketplace." Here the author makes his own appraisal of the political landscape and the prospects for bigger, further reforms.

Now, Roodman has given us a thorough and careful collection of evidence in his book, so we would expect to find him supporting a similarly careful, measured set of tactics to bring about the changes we need. And he does precisely this. Roodman is very much an incrementalist, suggesting plausible multi-year phase-ins and gradual coalition-building, small changes in tax rates, gentle rates of change. This smooth path is the author's choice as the best way to win support and achieve political victories. Here is how Roodman views the future political chance of meaningful fiscal reform:

"Looking ahead, the voices in support of change will only grow stronger. Environmental problems will increase in severity as population grows and throwaway consumerism spreads, prompting renewed calls for action. And the young but expanding companies on the winning side of reform, from wind turbine manufacturers to software makers, will likely organize themselves into increasingly effective coalitions."

If you're an optimist like this, you can afford to call for incremental steps to reform. But let's pursue this tangent further.

Could a pessimist not make the exact opposite claim? "Every small victory for the environment will cut support for further reforms. And young clean companies will be bought out, taken over and swallowed up by larger, polluting companies so that no sizeable voice for reform will ever emerge from the corporate sector."

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I fear that the pessimistic view seems to be the truer at present. So far, our efforts have not even stopped most of the egregious outright subsidies for environmental destruction. If those outrages aren't powerful enough to build a winning constituency for reform, why would phased-in environmental tax shifts excite larger numbers of people?

The strength of the incremental approach is also its biggest disadvantage -- calm ideas do little to make the heart beat faster and get us out of our chairs. What I would like to see in a future book is a throwing down of the gauntlet. Paying a polluter to pollute is not only poor fiscal policy, it's morally wrong and just as there's a place for sober argumentation, so is there a place for zeal and righteousness. A bold initiative might enroll additional supporters beyond those convinced by sound economic reasoning.

Meanwhile, if you are at all serious about environmental tax shifting, markets, environmental protection and fiscal reform, you will need this book on your shelf. And one last point -- the index is really good. I wish I could say that more often.

You can order The Natural Wealth of Nations by clicking <http://www.progress.org/banneker/sale>. To order Tax Shift or The Losses of Nations, click <http://www.progress.org/books>. For the Citizens' Guide to Environmental Tax Shifting, contact Laura Donovan <[email:ldonovan@progress.org](mailto:ldonovan@progress.org)>.