Case study

A similar case can be made for the preservation of environmentally sensitive areas. Preservation for preservation’s sake would be wasteful because it would use resources ineiciently. Thus, to return to the Manassas Battlefield development plan described previously, preserving open space surrounding the area rather than developing the land as a theme park should be done only if people are willing to pay more for open space than for a park. Because the Disney plan would have been financially very profitable, leaving it undeveloped would be wasting these valuable resources.

Challenges to this narrow economic view of corporate social responsibility are familiar to both economists and ethicists. A variety of market failures, many of the best known of which involve environmental issues, point to the inadequacy of market solutions. One example is the existence of externalities, the textbook example of which is environmental pollution. Because the “costs” of such things as air pollution, groundwater contamination and depletion, soil erosion, and nuclear waste disposal are typically borne by parties “external” to the economic exchange (e.g., people downwind, neighbors, future generations), free market exchanges cannot guarantee optimal results. A second type of market failure occurs when no markets exist to create a price for important social goods. Endangered species, scenic vistas, rare plants and animals, and biodiversity are just some environmental goods that typically are not traded on open markets (or, when they are, they are often traded in ways that seriously threaten their viability as when rhinoceros horns, tiger claws, elephant tusks, and mahogany trees are sold on the black market). Public goods such as clean air and ocean fisheries also have no established market price. With no established exchange value, the market approach cannot even pretend to achieve its own goals of deficiently meeting consumer demand. Markets alone fail to guaran- tee that such important public goods are preserved and protected.

A third way in which market failures can lead to serious environmental harm involves a distinction between individual decisions and group consequences. We can miss important ethical and policy questions if we leave policy decisions solely to the outcome of individual decisions. Consider the calculations that an individual consumer might make regarding the purchase of an SUV and the con- sequences of that decision on global warming. The additional CO2 that would be emitted by a single SUV is miniscule enough that an individual would likely conclude that her decision will make no difference. However, if every consumer made exactly the same decision, the consequences would be significantly different.

This example demonstrates that the overall social result of individual calculations might be significant increases in pollution and such pollution-related diseases as asthma and allergies. A number of alternative policies (e.g., restricting SUV sales, increasing taxes on gasoline, treating SUVs as cars instead of light trucks in calculating Corporate Automotive Fuel Efficiency [CAFE] Standards) that could address pollution and pollution-related disease would never be considered if we relied only on market solutions. Because these are important ethical questions, and because they remain unasked from within market transactions, we must conclude that markets are incomplete (at best) in their approach to the overall social good. In other words, what is good and rational for a collection of individuals is not necessarily what is good and rational for a society. Such market failures raise serious concerns for the ability of economic markets to achieve a sound environmental policy. Defenders of a narrow economic view of corporate social responsibility have responses to these challenges of course. Internalizing external costs and assigning property rights to unowned goods such as wild species are two responses to market failures. But there are good reasons for thinking that such ad hoc attempts to repair market failures are environmentally inadequate. One important reason is what has been called the first-generation problem. Markets can work to prevent harm only through information supplied by the existence of market failures. Only when fish populations in the North Atlantic collapsed, for example, did we learn that free and open competition among the world’s fishing industry for unowned public goods failed to prevent the decimation of cod, swordfish, Atlantic salmon, and lobster populations. That is, we learn about market failures and thereby prevent harms in the future only by sacrificing the “first generation” as a means of gaining this information. When public policy involves irreplaceable public goods such as endangered species, rare wilderness areas, and public health and safety, such a reactionary strategy is ill-advised.

Question:
**Explain why the market-based approach does not work and identify the issues of relying solely on this concept?**