

Show how selective logging can be seen as an impact of the market economy on the environment. Discuss the range of possible solutions that there might be to this problem.

The Amazon rainforest is one of the world's most marvellous natural resources. The market economy is potentially damaging it. The first section of the essay will discuss what a market economy is. It will explore the impact of economic activity in market economies on selective logging. Furthermore, discussing how selective logging affects the wider ecosystem. The second section will discuss which solutions could be taken to limit the impact of economic activity; also exploring whether these solutions are realistic and/or practical. Economics attempts to alert society to the questions and point out the consequences.

“An economic system, which resolves the basic economic problem mainly through the market mechanism”. (Anderton 2006, p 286) This is how the market economy is defined. There are many characteristics of a market economy. For example, economic agencies i.e. government institutions or individuals with the sale being the transfer of property rights. The price mechanism is an important factor in a market economy because the economic agents: buyers and sellers determine the prices within the economy. Adam Smith was a political economist. He coined the metaphor, “the invisible hand”. Smith argued that the agents pursue their own self-interest with the result being the allocation of resources in which society would benefit as a whole. “The invisible hand is the most efficient way to organise an economy” (Kangas, nd, para 11). Therefore, Smith's metaphor is empirically adequate.

Himmelweit and Simonetti (2004) identified that a market economy is destined to have externalities because the agents make their decisions on price (cited in Hinchliffe and Woodward, 2004, p 105). Externalities are common in economic activity. An externality is something that occurs as a result of the production process but which will also affect people who are not involved in that process. Externalities can cause market failure if the price mechanism does not take into account the full social costs and social benefits of production and consumption. Selective logging is a negative externality because it is a side effect of production. Selective logging is a consequence of the market economy on the environment and wider ecosystem because, “the forest becomes drier and more flammable”(adapted from Lister, 2005), and “logging tracks is also responsible for the destruction of much forest wildlife” (adapted from Lister, 2005). Selective logging is also responsible for “15 million metric tons of carbon from the ecosystem”(adapted from Lister, 2005). Industrial logging in forests is a major cause of ecological destruction and the loss of biodiversity, “5000 square miles” (adapted from Lister, 2005) every year is destroyed in this way. The study of externalities by economists has become extensive in recent years – mainly because of concerns about the link between the economy and the environment.

There are various ways in which action can be taken to limit the impact of economic activity in market economies on the Amazon rainforests. According to Hinchliffe and Woodward (2004, p 101) one possible solution would be to place exhaustible resources into private ownership. The problem with this solution is that the market is missing. There are no property rights. This solution is not practical because governments can use other methods such as taxes, to optimise efficiency without

having to allocate property rights. Environmental taxes are favoured by economists. In most circumstances the government would assess the tax rates and implement them accordingly. But, what price could one put on the impact of selective logging? The more realistic solutions would be timber labelling. There is plenty of scope for reducing the consumption of wood products in industrialised countries. A reduction in the demand for wood products is likely to mean less demand for tropical timber and therefore less pressure on tropical forests. The Rainforest Action Network is involved in a campaign to reduce wood consumption by 75% (environmental research foundation, 1995). Far more paper is used than is needed, and a far greater proportion could be recycled. Protection of certain areas would not happen without money to fund it. This is where market failure is occurring within a market economy. Companies and industries have a significant role to play in forest protection and management. By using only timber and paper that comes from environmentally responsible and socially just forest management, they can have a huge impact on the rate of deforestation.

In conclusion, selective logging can be seen as an impact of the market economy on the environment because the existence of externalities can cause problems for the environment. There are limited realistic and practical solutions to selective logging. Although, the most practical would be reducing the consumption of wood products. Economic decision-making is proven to be the cause of the worsening environment because economic growth and environmental degradation are linked in market economies. This essay has shown how the interrelation of the social and natural has created environmental problems.

WORD COUNT:905

REFERENCES

Anderton, A. (2006) *Economics 4th ed*, Bath: Causeway Press.

Environmental research foundation (1995) *Cut Waste, Not trees*. Accessed on 14th April 2009 from <http://www.rachel.org/en/node/3973>

Kangas, S. (nd) *Government Success stories and free market failures: The invisible hand*. Accessed on 16th April 2009 from <http://www.huppi.com/kangaroo/Invisible.htm>

Himmelweit, S. and Simonetti, R. (2004) 'Nature for Sale' in Hinchliffe, S. and Woodward, K. (eds.) *The natural and the social: Uncertainty, Risk, Change*, London, Routledge/The Open University.

Lister, S. (2005) adapted from 'Amazon's illegal loggers know we can't see the lost wood for trees,' *The Times*, October 21.