

Liberty, Markets and Environmental Values: A Hayekian Defence of Free Market Environmentalism

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Introduction

In recent years the development of ‘free market environmentalism’ has marked a major advance in the relationship between the classical liberal tradition and the challenge to individualist institutions presented by the modern environmental movement. Building on the work of Coase and the New Institutional Economics free market environmentalism has demonstrated that, far from being the inevitable result of market institutions environmental problems are best explained by the *absence* of these very institutions. Notwithstanding these advances, however, free market environmentalism has failed to have a significant impact on the environmental movement. Indeed, in so far as there has been *any* reaction to proposals for the extension of private property rights, these have tended to be hostile.

One of the reasons for this lack of progress stems from the differing social ontologies adopted by the proponents of environmental markets and the green political theorists and activists who tend to favour command and control models of environmental regulation. The former have a tendency to emphasise notions of rational self interest, utility maximisation and efficiency, whilst the latter focus on communitarian conceptions which emphasise a non-reductionist account of social interaction and a ‘moralistic’ approach to environmental issues that seeks to institutionalise a search for the ‘common good’.

Whilst recognising the contribution of rational choice analysis, this paper argues that free market environmentalism is unlikely to make political progress unless its arguments are recast in a mode that addresses the communitarian greens *on their own terms*. One way of achieving this goal is to restate the case for free market environmentalism from a Hayekian perspective. This paper attempts to move the debate in this direction by showing that the conclusions of Hayekian liberalism are *more* consistent with the non-reductionist foundations of green communitarianism than those of the communitarians themselves. The argument is structured in three parts. Section one, sets out the communitarian critique of free market environmentalism. Section two outlines the essentials of Hayekian liberalism and its similarities and differences with communitarian ontology. Finally, section three offers a Hayekian defence of free market environmentalism against the central claims of green communitarian thought.

Free Market Environmentalism versus Green Communitarianism

Inspired by developments in neo-classical welfare economics, for much of the post-war period environmental problems were treated as classic examples of ‘market failure’. According to this perspective, market processes result in socially sub-optimal environmental decisions because private decision-makers are not held properly to account for the consequences of their actions, owing to the prevalence of collective goods and externality problems. Seen in this light the task of environmental policy was to devise ways of correcting for imbalances in the market system via the judicious use of taxes, subsidies and regulatory controls in order to ensure the appropriate provision of environmental goods.

The emergence of free market environmentalism represents a significant advance in terms of the way that environmental problems are now conceived. Building on the work of Coase (1960), Demsetz (1969) and developments in public choice theory, free market environmentalism suggests that the mere identification of market failures is *not* a sufficient justification to warrant widespread government intervention. In so far as markets are prone to ‘fail’ in the environmental sphere, the principal reason for this is the high cost of establishing property rights. It is these obstacles to market exchange or transaction costs that prevent the successful internalisation of costs. Transaction costs are not, however, the sole preserve of the market system and it is to commit the ‘nirvana fallacy’ to suggest that the alternative to an imperfect market is a government immune from these same costs. Public choice theory, in particular suggests that the interaction of voters, interest groups, politicians and bureaucrats, is characterised by a distinctive set of transaction costs that may result in chronic examples of ‘government failure’. What is needed, therefore, is a comparative framework that examines the extent to which institutional provisions in the private and public sectors encourage or inhibit the internalisation of costs.

It is in the above context, that free market environmentalism has made a strong case for much greater use of property rights solutions and ‘imperfect’ market processes as an alternative to the regulatory state. On the one hand, authors such as Anderson and Leal (2001) have documented numerous examples of environmental goods that can be and are supplied successfully in private markets, whilst on the other, empirical research examining state centred models of environmental management has highlighted numerous cases of government failure. In the case of land based environmental assets such as forests and mineral rights, for example, evidence suggests that private property solutions are

highly successful in generating the necessary incentives that encourage resource conservation and help to overcome the problems of ‘free-riding’ associated with open access conditions (De Alessi, 2003). Thus, the record of forest management in Sweden under a predominantly private regime has been noticeably more impressive than the experience of government ownership in the United States, Canada and Britain. Similarly, the private ownership of wildlife in countries such as Botswana has had markedly more success in protecting stocks than the record of trade bans on ivory products that have been pursued over much of the African continent (Sugg and Kreuter, 1994).

Whilst proponents of free market environmentalism recognise that there are limits to environmental markets owing to the prevalence of transaction costs, they contend that these problems are more likely to be overcome within an institutional framework that is supportive of private contractual arrangements. According to this perspective, *all* environmental externalities represent potential profit opportunities for entrepreneurs who are able to devise ways of defining property rights and arranging contracts (via technological innovations, for example), so that those currently ‘free riding’ on collective goods or imposing negative external effects (e.g. pollution) on their neighbours are required to pay for the actions concerned. A land owner may, for example, introduce fences and install entrance points to the grounds of a park in order to exclude non-payers from the aesthetic benefits that the park provides. Likewise, if technologies develop in the future which will enable the ‘fencing’ of the atmosphere, then there will be incentives for entrepreneurs to define property rights to the air and to charge those who are currently polluting ‘for free’. In the market economy, therefore, if people are imposing costs on others, or benefiting from the provision of certain goods without payment there are always incentives for entrepreneurs to find ways of eliminating such involuntary transfers *over time*.

The political process, by contrast, tends in its very nature to *externalise* costs through the coercive mechanisms of collective decision. The all or nothing nature of political decision-making means that once a majority coalition has been assembled costs can be imposed on those who do not form part of the ruling group. There is, as a consequence, *always* an incentive for politicians to find ways of externalising costs, providing benefits to some groups at the direct expense of others. In light of these incentives advocates of free market environmentalism suggest that we should rely on government action only in those situations where it is inconceivable that a market solution might be forthcoming. At present, for example, the issue of trans-boundary air quality management would

seem to fall into this category. As yet, technological developments are not sufficient to enable the effective ‘fencing’ of atmospheric resources and as a consequence government action may be warranted as a last resort.

Recognising the limits of property rights solutions in this regard free market environmentalism argues nonetheless, that ‘market-like’ incentives such as tradable permit schemes be built into whatever policy interventions are required, rather than the adoption of a ‘command and control’ approach. According to this perspective, command and control policies such as fixed emission quotas, do not provide sufficient incentives to deliver improvements in environmental quality *beyond* those specified by government mandates. Market like approaches such as tradable permits by contrast give externalities a ‘price tag’, which can be reduced via a process of substitution. Thus, in the case of tradable pollution permits, if a firm reduces its emissions below its allocated quota, then it can sell on the un-needed share of its quota to less efficient firms. In turn, because the more efficient firms have a positive incentive to continue reducing pollution, there is less need for the state to employ armies of inspectors to ensure compliance with the law.

Notwithstanding the substantial body of evidence to support the case for free market environmentalism, the approach has made precious little headway in both policy terms and with regard to developments in green political theory. Whilst some green theorists are now willing to concede that certain environmental goods *can* be supplied via private markets they reject the view that these goods *should* in fact be provided in such a way. Similarly, whilst many greens are willing to concede the ‘efficiency’ case for tradable permits and other ‘market-like’ instruments, they continue to favour a reliance on ‘command and control’ policy tools. The basis of these objections rests on the contention that the rational choice model of decision-making is entirely inappropriate to the nature of the issues in hand. In making these claims green political theory draws heavily on the communitarian critique of market liberalism that has come to the fore over the last twenty years.¹

At the core of communitarian objections to the use of environmental markets is a belief that support for market processes presupposes that the purpose of social institutions is to facilitate the efficient satisfaction of individual preferences. From a communitarian perspective such an

¹ In using this term, I do not intend to imply that *all* people describing themselves as ‘green’ are communitarians. Nonetheless the term does capture a range of arguments that constitute a majority of green opinion, covering the so called ‘social ecology’ school, the ‘deep ecology’ school and a large body of green opinion which is influenced by the Frankfurt school of ‘critical theory’. For a critique of the latter from a Hayekian perspective, see Pennington (2001).

approach is neglectful of the moral context in which individual preferences are shaped and formed and eschews any sense of the 'common good'. MacIntyre (1984), for example, argues that liberalism reduces ethical questions to matters of personal preference, in such a way that morality becomes an entirely relativistic concept. In so far as liberals have a conception of the 'common good' this is seen to reflect the aggregate sum of individual preferences. As MacIntyre points out, however, without some overarching sense of morality that *transcends* the individual actor, liberalism is a potentially self-destructive ideology, since principles such as respect for private property themselves become matters of purely personal preference.

In response to such deficiencies, communitarians argue that the individual should be conceived as a thoroughly social being whose preferences are derived from a relationship to a shared or inter-subjective conception of the good reflective of the community *as a whole*. The 'common good', therefore, should provide a standard through which the virtue of individual preferences can properly be judged. According to this view, the 'selfishness' of market driven consumerism must be kept in its place, since the 'exit' mechanisms that pervade markets allow people to 'disconnect' from their communities and fail to relate their choices to a shared conception of the good (see, for example, Barber, 1984; Sunstein, 1991). By contrast, democratic deliberation and collective choice in the 'public realm' it is argued, enables individuals to educate their values through a dialogue where the virtue of preferences can be judged by the community, according to the articulation of the 'best reasons'.

Applying such arguments in the environmental sphere green political theorists contend that environmental problems are quintessential collective goods that can only be dealt with via institutions that transcend a concern for individual preference. There are several dimensions to this line of thought.

First, it is argued that environmental problems are 'systemic' in nature and cannot be dealt with effectively via approaches that treat individual issues in isolation from others (see, for example, Dryzek, 1987; Barry, 1999; Smith 2003). Ecological systems are complex inter-related wholes where decisions that affect one particular dimension (such as land management) will inevitably ripple outwards to affect other aspects of the human/ecological interface (such as water management). Since ecological processes encapsulate the notion that 'the whole is greater than the sum of its parts', environmental decisions should be based on more 'holistic' decision practices where concerned citizens can collectively analyse how

their choices affect and impinge on the lives and environment of others. A focus on market freedom it is argued 'atomises' individual decisions and discourages people from thinking about how their behaviour affects the health of the community *as a whole*.

A second and related objection to free market environmentalism derives from its focus on incentives. Seen in this light, property rights approaches emphasise the personal gains to be made from environmental protection rather than encouraging people to reflect on the moral virtue of ecologically sensitive behaviour. The focus on individual incentives in those cases where it *is* possible to supply environmental goods via the market, therefore, is likely to intensify prisoners' dilemma type problems where it is *not* possible for markets to deliver such goods owing to the culture of 'selfishness' that these institutions perpetuate (Jacobs, 1997). Command and control models of regulation, by contrast, are it is suggested more likely to inculcate 'other regarding' behaviour by enforcing a communal conception of morally appropriate resource use.

A third and final set of objections to free market environmentalism maintains that individual willingness to pay is simply not a valid criterion for a large a number of goods deemed to reflect fundamental moral and ethical values, which cannot be bought or sold. According to this view free market environmentalism takes individual preferences as fixed and pre-given and thus neglects the possibility that people can be educated to an appreciation of alternative lifestyles given a context that encourages debate and argument rather than a consumerist gratification of individual wants (see, for example, Barry, 1999).

Moreover, from the perspective of green communitarianism, the use of a common denominator such as money to aggregate individual preferences into an 'efficient' social welfare function, is entirely inappropriate where there are incommensurable moral ends involved and where the aggregation of conflicting values is, therefore, impossible. Moral conflicts over resource use should not be considered according to the utilitarian criterion of willingness to pay, but should instead be dealt with via democratic debate and compromise (see, for example, Smith 2003). The analogy invoked here is with scientific conceptions of truth, where it is usually considered inappropriate to decide the merits of competing theories according to the intensity of individual preferences. Likewise, for communitarian greens the ethical value of environmental public goods should be resolved via collective judgement in accordance with the 'power of the better argument' and not via a willingness to pay.

The overall essence of the green communitarian case is captured in the distinction drawn by Mark Sagoff, between ‘consumer’ and ‘citizen’ preferences. When asking a group of students if they would visit a new ski resort proposed for construction in a National Park, Sagoff notes that the majority of respondents indicated that they would gladly visit the resort to benefit from the recreational opportunities. When asking the same group of individuals whether they would in fact *support* the construction of the relevant resort, however, many of the individuals replied in the negative. For Sagoff, the difference between these responses is a reflection of the distinction between consumer and citizen preferences. As participants in a market for amoral consumer goods individuals welcomed the opportunity for new skiing facilities to satisfy their individual recreational wants. In their capacity as critical moral citizens, however, the same individuals were morally opposed to the destruction of valued wilderness, which was considered of value to their community *as a whole*. If we do not want to live in a degraded environment, therefore, then more often than not we should choose collective citizen deliberation over individual consumer choice.

F.A. Hayek: The Liberal as Communitarian²

It is evident from the above sketch that much of the objection to free market environmentalism stems not from concerns about the practicality of market solutions to environmental issues but from a rejection of the ontological framework from which these solutions derive. Green political theorists and activists are unlikely to accept proposals grounded in the assumptions of rational choice theory. As a consequence, much of the debate between the proponents of free market environmentalism and communitarian greens resembles a dialogue of the deaf. The latter is notably apparent in some recent exchanges between Mark Sagoff and Terry Anderson and Donald Leal. According to Sagoff (1994), free market environmentalism relies on an aggregate conception of allocative efficiency, scarcely distinguishable from neo-classical welfare economics and fails to recognise that environmentalists are concerned not with efficiency but with the *moral* status of conserving the natural world. For their part, meanwhile, Anderson and Leal (2001, p.24) accuse Sagoff of providing little more than a sophisticated apology for a disguised form of rent seeking by environmental campaigners.

I do not, in this paper, intend to debate the virtues of the rational choice model or to engage too deeply in the debate between ‘liberals’ and

² I borrow this phrase from the title of an excellent review article, which compares and contrasts Hayekian liberalism with the main elements of communitarian thought –see McCann (2002).

‘communitarians’ that has raged over recent years. Having worked from within a liberal rational choice perspective myself (see, for example Pennington, 2000), I simply note that many of the objections to this account of human behaviour are weak and can be dealt with from inside the rational choice framework itself (see, for example Epstein, 2003). Rather, my purpose here is to demonstrate that even if one *accepts* all the communitarian arguments against rational choice liberalism, *none* of these arguments provides an effective case against market institutions and environmental markets in particular. On the contrary, a Hayekian perspective shares many of the ontological assumptions of communitarian thought and yet provides a radical endorsement of the case for private markets. This section sketches the similarities and differences between Hayek’s liberalism and modern theories of communitarianism. The subsequent section applies these Hayekian concepts to mount a defence of free market environmentalism against the claims of the communitarian greens.³

The most immediate similarity between Hayekian liberalism and communitarian thinking is evident in the notion of ‘true’ individualism. The latter acknowledges that individuals are *inherently* social creatures (or ‘situated selves’ to use communitarian terminology), who acquire many of their preferences, values and practices via a process of emulation and imitation. For Hayek, true individualism is to be distinguished from the ‘false’ individualism, which conceives of society as the rational creation of individuals seeking to design optimal social institutions.

“This fact should by itself be sufficient to refute the silliest of misunderstandings: the belief that individualism postulates (or bases its arguments on the assumption of) the existence of isolated or self-contained individuals, instead of starting from men whose whole nature and character is determined by their existence in society.” (Hayek, 1948a, p.6).

To recognise that people are a product of their society is not, however, to imply that society is itself the result of deliberate human action. On the contrary, the social and cultural environment is largely the unintended by-product of many individual acts, the effects of which are beyond the purview of any one actor or group. For Hayek, the defining feature of the individual as a social being is her incapacity to comprehend more than a tiny proportion of the society of which she is a part owing to the constitutional limits of the human mind. Individuals and organisations are

³ It should be recognised that Anderson and Leal do make excellent use of Hayek’s work at various points in *Free Market Environmentalism*. They fail however to set these arguments in a broader philosophical/ epistemological context and as a consequence do not address the arguments of Sagoff and other communitarian greens *on their own terms*.

situated within much larger ‘spontaneous ordering’ processes the results of which are far greater than, and hence beyond the comprehension of their constituent parts. Language, for example, whilst developing out of the human capacity for communication, emerges as the unintended by-product of multiple communicative acts. As new words and combinations spread via a process of imitation and adaptation, their initiators are *not* consciously aware of how such practices will be used and adapted by others. Similarly, the users of language are typically unaware of the multiple individual nodes that have initiated the words and phrases in common usage and the ‘reasons’ why such symbols have been adopted. It is in the latter sense that complex social wholes such as language are ‘greater than the sum of their parts.’

Seen through this lens, whilst communitarians are right to emphasise the socially ‘situated’ nature of the individual, they are in error when suggesting that ‘community’ is something that advances via conscious deliberation. From a Hayekian perspective, the content of community is not something that can be consciously articulated, but is an emergent property from the interactions of many individuals and groups. This anti-intentionalist account of societal development does not, as if often suggested by critics of ‘invisible hand’ theories, reduce social explanation to one of mere accident. On the contrary, the central claim of the Hayekian perspective is that in order to operate in a social world, more complex than can be directly perceived, individuals *must* rely on spontaneous ordering processes in order to achieve an effective level of social co-ordination. If social wholes are indeed ‘greater than the sum of their parts’ then it follows that the constituent elements, even when acting as an organised group via institutions such as the state, can *never* comprehend all of the factors that contribute to the advance of the whole.

From a Hayekian perspective, ‘community’ involves the relations of shared identification, morals and commitments associated with observance of spontaneously evolving cultural rules, including language and social mores such as respect for private property. In accordance with communitarian accounts of ethics, therefore, morality transcends the individual actor and is not reduced to a matter of personal preference. Nonetheless, while individuals identify themselves through the social practices in which they are embedded communitarians are wrong to suggest that individual actors are consciously involved in the pursuit of some ‘communal end’. When understood as a spontaneous order or catallaxy the community cannot be considered to have ends of its own. To speak of a ‘communal end’ would require that society operate as an instrumental organisation, a sort of ‘super-person’ that defines the ends of

its citizens. The latter conception of social order, favoured by communitarians is, according to Hayek, only appropriate to a tribal society operating according to a narrowly defined set of goals. It is, however, wholly inappropriate to an ‘open society’ where people have communal attachments to the cultural rules and practices which order their behaviour, whilst also having the liberty to experiment in the pursuit of a wider variety of different ends.

The emphasis on spontaneous order and a non-intentionalist account of social co-ordination assume pride of place in Hayek’s economics and in particular his defence of market institutions and critique of socialist planning. For Hayek, market processes perform two crucial functions that cannot be replicated by deliberate social planning.

First, market prices communicate in coded form, the ‘circumstances of time and place’ affecting dispersed individuals and organisations that can never be comprehended in their entirety (Hayek, 1948, b and c). Shifts in the structure of relative prices may reflect changes in tastes, ethical values, the availability of new substitutes, entrepreneurial innovations and all manner of context specific factors, known only to those engaged in a particular exchange. What is crucial, is that in order to change their production or consumption patterns actors need *not* know anything about the complex of events that contributes to a rise or fall in price - all they need to know is that the price has changed. For a government planning mechanism to achieve an equivalent level of co-ordination would require that an organised group be consciously aware of all the relevant facts necessary to secure the dovetailing of the multitude components that form a complex economy. It is, however, the cognitive inability of such a group to access the constantly changing circumstances of individuals and firms that prevents conscious co-ordination of this type.

As well as enabling people to adjust their behaviour to changing patterns of relative scarcity, the market economy also acts as a *creative* procedure in which the *content* of scarcity, of ‘which goods are scarce goods’ is itself discovered and disseminated via a process of competitive emulation (Hayek, 1948c, 1978). On the supply side each entrepreneurial act, such as the offering of a new product or mode of organisation actively creates new knowledge that might otherwise have gone unnoticed. The resultant profits (and losses) may then be spotted by other firms who imitate the behaviour of the successful and learn not to make the same errors as the unsuccessful. On the demand side meanwhile, consumers learn about new goods and prices via a snowballing process as individuals emulate the purchases of their neighbours and learn about new ways of living by

observing the competing goods displayed in catalogues or advertisements. From a Hayekian perspective, government planners could never perceive and respond to all the different production and consumption ideas dispersed ‘in the minds’ of the diversity of decision-makers who have the freedom to exchange property titles in the market. Attempts to set prices by government fiat, therefore, are doomed to failure, since the ‘right prices’ are unknowable in the absence of market competition and the ‘social division of knowledge’ on which this process draws (Hayek, 1948 a, b and c, 1978).

The co-ordination properties of market institutions are not, from a Hayekian perspective to be confused with a narrowly utilitarian procedure for aggregating individual values into an ‘efficient’ or ‘optimum’ social outcome. To speak of maximisation or efficiency is only appropriate in the context of an individual household, organisation or firm operating according to a *unitary scale of values* and hence of what is judged more or less important (Hayek, 1973). Market liberalism does not deny the notion of the ‘common good’ or reduce such a conception to an aggregation of individual scales of value. On the contrary, a liberal market order secures the common good by providing the conditions within which individuals are able to pursue a variety of *different* and perhaps *incommensurable* ends. The virtue of the market economy is not its capacity to generate an ‘efficient’ set of decisions, but its ability to allow the discovery and pursuit of a range of different and perhaps conflicting values. The common good, meanwhile, is facilitated by the generation of market prices which enable a process of mutual adjustment between people pursuing a diversity ends – an adjustment which increases the chance that any one of these ends might successfully be achieved (Hayek 1973, pp.114-115).

In concluding this section it is important to note that the Hayekian emphasis on spontaneous order *does not* deny the relevance or value of *all* acts of conscious planning or design in society, but is based instead on recognition of the *limits* to such forms of social control. Firms in a market economy, for example, are ‘planning organisations’ that emerge in situations where there may be gains to be made from replacing spontaneous order with a hierarchy of conscious ‘planning’. There comes a point, however, where smaller more flexible competitors exhibit a market edge as the cognitive limits of the firm are breached. For Hayek, it is because we cannot identify in *precise* terms the boundaries of conscious reason that *all* acts of conscious planning should be subject to a wider process of competitive experimentation. This is not to suggest that such processes will always lead to the most desirable outcomes, because

bad decisions can never be eliminated from a process based on evolutionary trial and error. What it does suggest, however, is that given a world characterised by complexity, uncertainty and un-intended consequences, a reliance on such processes constitutes a *necessary* if not a sufficient condition for the successful co-ordination of social affairs.

A Hayekian Defence of Free Market Environmentalism

It should be apparent that Hayek's version of liberalism is not susceptible to many of the charges levelled at more orthodox forms of liberal theory by communitarians. With its socialised conception of the individual and of rationality, 'true individualism' is not guilty of the atomistic fallacy. Similarly, with its concept of spontaneous order or catallaxy this approach cannot be accused of seeing society in narrowly aggregate terms. More important, the Hayekian defence of the market makes *no* assumptions about individual motivations. It is *not* that individuals are insufficiently altruistic and lacking the necessary incentives under socialism, but that in the absence of the signalling function of market prices, they could never possess the appropriate *knowledge* to adjust their behaviour in a manner consistent with the interests of others.

The Limits of Social Consciousness

The latter point is central to Hayekian objections against communitarian notions, which suggest that environmental decisions be made collectively by citizens who *consciously* analyse how their actions affect the lives of others. From a Hayekian perspective whilst the self is socially 'situated' the notion of a 'socially conscious' citizen is an epistemological impossibility. Given the cognitive limits of the mind, individuals and groups *cannot* be aware of all the different ramifications of their actions both to themselves and to the wider society. This is not to suggest that 'other regarding' behaviour is itself impossible, but that such action may only occur within a small cognitive sphere, confined perhaps to family, friends and colleagues. Consumer choices, therefore, are not necessarily selfish - a consumer may be seeking out the best value in the market on the behalf of friends, colleagues or a charity. Given the cognitive limits of the mind, however, the ends about which people know will always be a tiny fraction of the needs of dispersed others. *The* central problem of social co-ordination, therefore, is to enable people to adjust to circumstances and interests of which they are not directly aware. For Hayek, this is precisely the role performed by market generated spontaneous order, when it is impossible to be consciously aware of what everybody else is doing.

In light of the above the normative relevance of the communitarian distinction between altruistic ‘citizenship’ and selfish ‘consumerism’ collapses. To illustrate, consider the earlier example provided by Sagoff, where it was argued that ‘consumer’ action to satisfy recreational ‘wants’ would favour the construction of a ski resort in a National Park, whereas ‘citizen’ action would oppose the destruction of unspoilt wilderness, of value to the community as a whole. At first sight this seems to illustrate the merits of the communitarian case, but on closer inspection the example fails to justify the conclusion that Sagoff derives.

Sagoff (1988, p.80) concedes that most environmental decisions are *not* after all, akin to matters of scientific truth, which can be judged ‘right’ or ‘wrong’ on the basis of reasoned argument. Rather, they involve trade-offs and marginal adjustments between competing values. Even for communitarians, therefore, it would seem ‘economic’ factors such as the intensity of preferences and the availability of substitutes must be taken into account. Thus,

“We must acknowledge, however idealistic we may be, that clean air, workplace safety and the like have a price and at some point the additional amount of cleanliness or safety may be grossly disproportionate to the goods and services that we must forego in order to pay for it.... But how to determine what is appropriate from an ethical point of view?”

With specific regard to the ski resort example, therefore, it is not so much that people have a community centred objection to ski resorts *per se*, but that they are opposed to the construction of such a venture in a particular wilderness area. The underlying problem is to find a mechanism in order to decide where new resorts should be allowed to proceed and how many there should be. For Sagoff, such decisions should be made through a deliberative democratic process based on compromise, and debate. It is precisely at this juncture, however, that democratic deliberation faces the epistemological problems highlighted by Hayek. Democratic representatives can never have access to, or process, the complex of factors to adjust the demand for ski resorts accordingly. Information pertaining to ethics, local conditions, pressures on land use etc., does not exist as a coherent integrated whole. The dispersed ‘bits’ of information may, however, be communicated by market prices which transmit context specific factors in coded form across the overlapping perspectives of many different actors - shifting demand for ski resorts away from more environmentally valued and hence relatively more expensive sites, for example. *Irrespective* of whether the participants are acting in ‘consumer’

or ‘citizen’ vein, therefore, without a set of *relative prices* the desired process of mutual adjustment is unlikely to be brought about.

The latter point does not deny the existence of alternative forms of mutual adjustment that can occur in other networked structures such as linguistic communication or even pluralist politics. What it does suggest, however, is that there is no effective equivalent to market prices when the adjustments required are fine-grained responses to shifting patterns of relative scarcity. Absent the common denominator provided by money prices, citizens and politicians lack the capacity to make the necessary marginal adjustments. How, for example, are politicians to judge whether the receipt of a phone call from a citizen is to be given the same weight as that of other citizens writing letters or attending demonstrations. Even processes of single-issue direct democracy (the preferred method of many communitarian greens) provide no means equivalent to money prices of adjusting to the *intensity* of individual valuations. In such processes the vote of someone who values a particular good very highly counts for no more than that of someone else who places the same good much further down her scale of values (Steele, 1992, pp.316-317).

To take the analysis further, it is useful to compare Hayekian arguments for a property rights approach to the problem of ‘open access’ environmental resources from those associated with rational choice versions of economic liberalism. According to the latter, establishing private property rights over resources such as water or fish stocks is crucial in helping to change the incentives that self interested actors face, internalising costs and hence overcoming the ‘free rider’ problem (see, for example, Baden and Stroup, 1979). The Hayekian argument for property rights and markets is, however, by no means dependent on the assumption of individual self-interest and the significance of incentives. Suppose an individual is altruistically motivated as a concerned citizen to reduce her water consumption to ‘socially responsible’ levels. In the absence of property rights and market prices for water there is no way for the individual concerned to adjust her consumption to the interests of others. As Steele (1992, p.205) points out, faced with this situation even the most altruistically inclined person is likely to consume as much water as she personally requires *because at least she knows that*, whereas ‘socially responsible’ levels of consumption are shrouded in a fog of ignorance.⁴ Such problems will, of course be multiplied many times over

⁴ One way of overcoming this problem is to rely on traditional communal rules to regulate resource exploitation, as is the case with the ‘common property’ regimes examined in depth by Ostrom (1990). Such approaches are more likely to be effective in small scale, isolated economies where resource demands are relatively predictable. They are, however, much less suitable in a more complex interdependent economic structure where pressures on resource use are subject to considerable

when the choice is between the vast array of production and consumption possibilities that make up an advanced economy and the complexity of their environmental consequences. In short, without the information provided by market generated relative prices it will be impossible for citizens to communicate their values to one another and adjust their behaviour accordingly.

Preference Elevation and the Market Economy

From a Hayekian perspective people simply cannot know in some collective or deliberative sense how to act in the ‘public good’ and as such the claim that ‘other-regarding’ behaviour is more likely to be generated via collective choice looks doubtful in the extreme. What is equally significant, however, is that many of the educative advantages also attributed to communitarian politics may be *more likely* to arise in the private market. If individual preferences are shaped by the social environment then for communitarians it follows that the resultant values should be subject to a process of democratic criticism and debate where the virtue of these values can be examined by the community as a whole. Seen through a Hayekian lens this argument rests on a complete *non sequitur*.

‘Pre-given’ or ‘innate’ preferences in human beings are probably confined to a few basic desires for food, shelter and sex. As Hayek (1967 b, p.315) notes,

“ It would scarcely be an exaggeration to say that contemporary man, in all fields where he has not yet formed firm habits, tends to find out what he wants by looking at what his neighbours do and at various displays of goods (physical or in catalogues or advertisements) and then choosing what he likes best.”

The vast majority of the goods that people desire, therefore, are things which people *learn* to desire because they *see* other people enjoying them. The desire for literature, for example, is probably not innate, but is largely an ‘acquired taste’ derived from the cultural environment (Hayek, 1967 b). Is it seriously to be suggested, therefore, that the production and consumption of literature is to be subject to state control and that the *only* literary values that should be exercised in society are those arrived at via majority approval? The citizen v consumer dichotomy central to communitarian thought does not appear to provide clear grounds for

fluctuation, and where resource demands may vary considerably between actors. In these circumstances a flexible set of relative resource prices brought about via trading in private markets is more likely to facilitate the necessary mutual adjustment (Alchian and Demsetz, 1973).

deciding whether such decisions should be subject to social democratic procedures. It might, of course, be argued that because environmental goods are collective goods that democratic choice mechanisms are the most appropriate. This is, however, to reduce the argument for ‘citizenship’ to a purely technical question of defining the boundaries of a collective good. If it turns out that environmental goods can be supplied privately then there is no discernible merit in the distinction between ‘citizen action’ and ‘consumer choice’.

For Hayek, market institutions are evolutionary discovery processes that expose people to a wide variety of competing ideas and enable the discovery of previously ‘unforeseen’ production and consumption values. Market processes allow contradictory ideas to be *simultaneously* tested against one another without the need for majority approval. Employing the option of ‘exit’ enables those individuals who dissent from the majority to follow their own ideas without impinging on the ability of those who support the majority opinion to follow theirs. The market process, therefore, allows a greater range of production and consumption decisions to be tried and tested and hence brings more knowledge into the ‘public realm’ than would ever be the case under a strictly majoritarian system. As Wholgemuth (1995; 1999) observes, the most that majoritarian procedures can do is to conduct consecutive experiments where there is only one, or a very few sets of options being tried out at any time. Similarly, the most that politicians and interest groups that do not form part of the majority can do is to offer verbal critiques of current policy platforms. What they cannot do, however, is to actively *supply* alternative packages of goods. The range of plans that may actually be implemented, therefore, will necessarily be less than in a context of private exchange.

Paradoxical as it may seem the learning advantages of markets stem from the fact that they *do not* rely too heavily on the transmission of knowledge via explicit articulation. This is, of course, one of the primary complaints raised against markets by communitarians. From a Hayekian perspective, however, though discussion is an important way to impart knowledge and while it is true that democracy is or should be ‘government by discussion’, this is *not* the most important way by which people can actually decide what is best (Hayek, 1960, p.110). On the contrary, there is a large body of tacit knowledge that can *only* be communicated by multiple examples of private *action* (doing, rather than talking). There is a crucial distinction between the sort of social learning that takes place when people enter into a verbal conversation or read a written text and that which occurs by observing and emulating the

behaviour of others (Horwitz, 1992; Pennington, 2003). The latter is an example of learning by results, imitating successful courses of action and avoiding unsuccessful ones even when the reasons behind such successes and failures cannot explicitly be articulated. The emphasis on explicit reasoning in a communitarian democracy is, therefore, likely to stultify the dissemination of new values by choking off those forms of tacit knowledge that cannot be communicated via the articulate persuasion of majorities.

The communitarian claim that the elevation of individual values is more likely to occur in a context of collective citizen deliberation is, therefore, without foundation. As Michael Polanyi (1951, 1957) has shown, the spread of knowledge in markets, the arts, science and academia does not proceed via collective deliberation but is best advanced when individuals and groups have a ‘private sphere’ that secures the freedom to experiment with projects that do not conform to majority opinions. In turn, it is because of the ‘private freedoms’ exercised in such contexts that the prevailing wisdom changes incrementally, over time. With regard to ‘green’ consumption, for example, it is doubtful whether the massive growth in the organic food market that has occurred over recent years, would ever have developed if production decisions in the agricultural sector had been subject to collectivist procedures. For years, organic food was perceived to be the concern of hapless eccentrics. It is, however, precisely because private property affords minorities the space to *try out* experimental ideas, the merits of which may be indiscernible (rather than simply talking about them) that more and more people are able to emulate such role models as the benefits become more visible.⁵

This argument does not suggest that the market process will necessarily throw up ideas ‘good’ for the environment, but that a process allowing for a greater degree of experimental adaptation is more likely to do so than a collectivist regime bound by majority decisions. Open-ended discovery processes such as the market necessarily allow mistakes and are characterised by an element of disequilibrium. Bad decisions cannot be eliminated from evolution and are essential to a process characterised by trial and error learning. As research conducted since the early 1980s suggests, ecosystems are themselves far from static entities (see, for example, Botkin, 1990; McCoy and Shreder-Frechete, 1994; Chase, 1995). Ecological systems are subject to constant change, both ‘natural’ and human induced, some of which may be beneficial, some of which may be harmful. A process of experimental adaptation akin to that of the

⁵ A process that may have progressed more speedily were it not for the communitarian justifications so frequently advanced in support of the European Union Common Agricultural Policy.

market may, therefore, be more appropriate than the notion, favoured by communitarian greens (see, for example, Jacobs, 1997), of ‘steering’ a ‘sustainable development’ path. Indeed, the notion of ‘steering’ may be totally inappropriate to the context of a dynamic, open-ended system. The essentially unpredictable nature of such systems implies that collectives simply cannot know *where* they are supposed to be going. Experience suggests that governments are not in the best position to ‘pick industrial winners’, so there is little reason to believe that they will be able to select an appropriate development path, ‘sustainable’ or otherwise.

Deliberative democracy is, therefore, unlikely to generate the necessary process of evolutionary adaptation appropriate to dynamic human/environmental conditions. Indeed, it is not clear that communitarian greens are particularly committed to evolutionary learning *per se*. For all the claims made in favour of communication and debate, theorists of this persuasion tend to have decidedly strong views about the appropriate location of chemicals, of how much people should be allowed to travel and of what is to constitute ‘sustainable development.’ Barry (1999, p.165), for example, argues that international trade is ‘inherently’ unsustainable, whilst for Daly and Cobb (1989, p.277) there must be a ‘massive program of education’ to re-orient citizens to a preference for rural as opposed to urban ways of life. With certainties of this order, the parameters for ‘open-ended debate’, seem very limited indeed.

The Cash Nexus and Moral Values

The remaining objection to environmental markets is that willingness to pay is simply not a valid criterion for a large number of goods deemed to reflect moral and ethical values, which cannot be bought or sold. Again, Sagoff’s example about the preservation of wilderness values over ski resorts falls clearly into this category. From a Hayekian perspective, however, this is a particularly weak line of tack. The fundamental reason for instituting property rights over environmental assets is precisely that they allow people to say *no* to inappropriate offers be this for ethical grounds or any other reason important to the property owner/s concerned – and not to have such judgements made by bureaucrats. Just as one may refuse to sell the family home to the highest bidder because of personal history/identity, so a property right to a forest or waterway would allow individuals and groups not to sell extraction rights if the ‘compensation’ offered is inappropriate to the moral attachments concerned. There is for example, no evidence to suggest that in societies where monetary payment for sexual services is legalised that a higher proportion of the population consider prostitution as a valid career option. Moreover, as

Epstein (2003) has argued, to outlaw the offer of monetary payments where moral issues are involved is to actively *devalue* the ethical fortitude of those individuals who resist monetary inducements. If cash payments are utterly inappropriate then an important social signalling function indicating the character and values of different actors is *lost*, by prohibiting such payments from being made (Epstein, 2003, p.157).

Communitarian greens complain that the use of a common denominator such as money is inappropriate where there are incommensurable moral ends involved and where the aggregation of conflicting values is, therefore, impossible. As has already been shown, however, the Hayekian case for market prices is *not* that they facilitate the aggregation of values into a yardstick of ‘social welfare’, but that they allow people with conflicting ends to engage in an impersonal process of mutual adjustment. Critics of money prices appear to have no such qualms about the use of a common denominator when it comes to their own ‘deliberative designs’, all of which resort to some form of majority voting (see, for example, Smith, 2003). For the reasons outlined earlier, such processes are far less likely to facilitate mutual adjustment than a set of market generated relative prices. It is, therefore, erroneous to suggest that moral values cannot be reflected by the ‘cash nexus’, since every decision not to buy or sell, for whatever reason, will be reflected in the relevant markets.⁶ Moreover, a case can surely be made that it is precisely with the ends that people value most highly that they should be required to make a personal sacrifice, including perhaps a material sacrifice. It is ironic that communitarian greens urge that people should sacrifice the material benefits of growth for a better ‘quality of life’, whilst refusing to countenance the possibility that people should be faced directly with the material opportunity costs of such decisions.

Conclusion

This paper has sought to defend the case for a property rights approach to issues of environmental protection against the challenge to the liberal market presented by green communitarianism. Unlike existing defences of free market environmentalism the preceding pages have set out a critique of green political theory that addresses the concerns of the communitarian greens *on their own terms*. A Hayekian perspective is well suited to perform this task and suggests that a focus on the ‘situated self’, the systemic nature of environmental problems and a non-aggregate account of social decision practices offers greater support for liberal

⁶ The notion that the content of relative prices is affected by cultural and moral factors has long been recognised in liberal political economy – see, for example, Mill (1848), chapter 5, book 2.

markets than for a communitarian ‘citizens’ democracy. In so far as there are genuine limits to the extension of private property arrangements, these should be judged on an evaluation of the logistical obstacles to environmental markets and not on the spurious distinction between the virtues of ‘citizenship’ and the supposed evils of market driven consumer choice.

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