
Liberty, Markets, and Environmental Values

A Hayekian Defense of Free-Market Environmentalism

— ◆ —

MARK PENNINGTON

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 Ronald Coase and the New Institutional Economics, free-market environmentalism has demonstrated that environmental problems, far from being the inevitable result of market institutions, 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, insofar as there has been *any* reaction to proposals for the extension of private-property rights, it has 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, on the one hand, and by the green political theorists and activists who tend to favour command-and-control models of environmental regulation, on the other. The former have a tendency to emphasize notions of rational self-interest, utility maximization, and efficiency, whereas the latter focus on communitarian conceptions that emphasize a nonreduc-

Mark Pennington teaches in the Department of Politics at Queen Mary College, University of London. *The Independent Review*, v. X, n. 1, Summer 2005, ISSN 1086-1653, Copyright © 2005, pp. 39–57.

tionist account of social interaction and a “moralistic” approach to environmental issues that seeks to institutionalize a search for the “common good.”

Although I recognize the contribution of rational-choice analysis, I argue in this article that free-market environmentalism is unlikely to make political progress unless its arguments are recast in a mode that speaks to 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. I attempt to move the debate in this direction by showing that the conclusions of Hayekian liberalism are *more* consistent with the nonreductionist foundations of green communitarianism than are the conclusions of the communitarians themselves. The argument is structured in three parts. In the first section, I set out the communitarian critique of free-market environmentalism. In the second section, I outline the essentials of Hayekian liberalism and its similarities to and differences from communitarian ontology. Finally, in the third section, I offer a Hayekian defense of free-market environmentalism against the central claims of green communitarian thought.

Free-Market Environmentalism versus Green Communitarianism

Environmental problems for much of the postwar period were treated as classic examples of “market failure,” a treatment inspired by developments in neoclassical welfare economics. In this perspective, market processes result in socially suboptimal 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 is to devise ways of correcting 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 how environmental problems are conceived. Building on the work of Ronald Coase (1960), Harold Demsetz (1969), and developments in public-choice theory, free-market environmentalism suggests that the mere identification of market failures is *not* a sufficient justification for widespread government intervention. Insofar as markets are prone to “fail” in the environmental sphere, they do so mainly because of the high costs of establishing private-property rights. These obstacles to market exchange prevent the successful internalization of spillover effects. Transaction costs are not the sole preserve of the market system, however, and we commit the “nirvana fallacy” if we suggest that the alternative to an imperfect market is a government immune from the same sort of problems. Public-choice theory, in particular, suggests that the interaction of voters, interest groups, politicians, and bureaucrats is characterized by a distinctive set of transaction costs that may result in chronic examples of govern-

ment failure. What we need, therefore, is a comparative framework for examining the extent to which institutional provisions in the private and public sectors encourage or inhibit the internalization of all costs.

In this framework, free-market environmentalism has made a strong case for much greater use of private-property rights and “imperfect” market processes as an alternative to the regulatory state. Authors such as Terry Anderson and Donald Leal (2001) have documented numerous examples of environmental goods that can be and are supplied successfully in private markets, and empirical researchers examining state-centered models of environmental management have highlighted numerous cases of government failure. For land-based environmental assets such as forests and minerals, 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 record of forest management under government ownership in the United States, Canada, and Great Britain. Similarly, the private ownership of wildlife in countries such as Botswana has had markedly more success in protecting stocks than government-sponsored trade bans on ivory products that have been put in place over much of Africa (Sugg and Kreuter 1994).

Although proponents of free-market environmentalism recognize that environmental markets have limits owing to the prevalence of transaction costs, they contend that these problems are more likely to be overcome within an institutional framework supportive of private contractual arrangements. In this perspective, *all* environmental externalities represent potential profit opportunities for entrepreneurs who can devise ways of defining private-property rights and arranging contracts (via technological innovations, for example) so that those currently free riding on collective goods or imposing negative external effects (for example, water pollution) on their neighbors are required to bear the full costs of their actions. A land owner, for example, may introduce fences and install entrance points to the grounds of a park in order to exclude nonpayers from the park’s aesthetic benefits. Likewise, if technologies develop in the future that enable the “fencing” of the atmosphere, then entrepreneurs will have incentives to define property rights to the air and to charge those who are currently polluting without compensating those injured by their action. In the market economy, therefore, if people are imposing costs on others or are benefiting from the provision of certain goods without payment, entrepreneurs have incentives to find ways of eliminating such involuntary transfers *over time*.

The political process, by contrast, tends in its very nature to *externalize* 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 outside the ruling group. As a consequence, politicians *always* have an incentive to find ways of externalizing 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, transboundary air-quality management seems to fall in this category. As yet, technological developments have not allowed the effective “fencing” of atmospheric resources, so government action may be warranted as a last resort.

Recognizing the limits of property-rights solutions in this regard, free-market environmentalists argue nonetheless that “marketlike” incentives, such as those established by tradable-permit schemes, be built into whatever policy interventions are required, eschewing the adoption of a command-and-control approach. In 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. Marketlike approaches, such as tradable permits, by contrast, give externalities a price tag that producers can reduce in a process of substitution. Thus, in the case of tradable pollution permits, if a firm reduces its emissions below its allocated quota, it can sell the unneeded share of its quota to other firms that are less efficient in producing emissions reductions. In turn, because firms, whatever their efficiency, have a positive incentive to continue reducing pollution, the state has less need to employ armies of inspectors to ensure compliance with the law.

Despite the substantial body of evidence to support the case for free-market environmentalism, the approach has made little headway either in policymaking or with regard to developments in green political theory. Although some green theorists are now willing to concede that certain environmental goods *can* be supplied in private markets, they reject the view that these goods *should* be provided in that way.

Similarly, although many greens are willing to concede the “efficiency” case for tradable permits and other marketlike instruments, they continue to favor reliance on command-and-control policy tools. Their objections rest on the contention that the rational-choice model of decision making is entirely inappropriate to the nature of the matters at issue. In making these claims, green political theorists draw heavily on the communitarian critique of market liberalism that has come to the fore over the past 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 approach is neglectful of the moral context in which individual preferences are shaped and eschews any sense of the “common good.”

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

Alistair 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. Insofar as liberals have a conception of the common good, it 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 because principles such as respect for private-property rights become matters of purely personal preference.

In response to such perceived 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 intersubjective conception of the good reflective of the community *as a whole*. The common good, therefore, should provide a standard by 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 because the exit mechanisms that pervade markets allow people to “disconnect” from their communities and render them unable to relate their choices to a shared conception of the good (see, for example, Barber 1984, Sunstein 1991). In contrast, democratic deliberation and collective choice in the “public realm,” it is argued, enable individuals to educate their values through a dialogue in which 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-good problems that can be dealt with only by institutions that transcend a concern for individual preference. This line of thought has several dimensions.

First, it is argued that environmental problems are “systemic” and therefore cannot be dealt with effectively by using approaches that treat individual issues in isolation from others (see, for example, Dryzek 1987; Barry 1999; Smith 2003). Ecological systems are complex interrelated wholes in which decisions that affect one particular dimension (such as land management) inevitably ripple outward to affect other aspects of the human/ecological interface (such as water management). Because green thinkers tend to apply to ecological processes the notion that “the whole is greater than the sum of its parts,” they regard it as imperative that environmental decisions be based on holistic decision practices, whereby concerned citizens collectively analyze how their choices affect and impinge on the environment and the lives of other human beings. A focus on market freedom, they argue, “atomizes” individual decisions and discourages people from thinking about how their behavior 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 emphasize concrete personal gains to be realized from environmental protection rather than encourage people to reflect on the abstract moral virtue of ecologically sensitive behavior. The focus on individual incentives in cases where the market *can* supply environmental goods, therefore, is likely to intensify prisoners’ dilemma-type problems in cases

where markets *cannot* deliver such goods owing to the culture of “selfishness” that these institutions perpetuate (Jacobs 1997). Command-and-control models of regulation, it is suggested, are by contrast more likely to inculcate other-regarding behavior 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 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 predetermined, thus neglecting 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, in 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 incommensurable moral ends are involved and 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 by means of democratic debate and compromise (see, for example, Smith 2003). The analogy invoked here is the approach to scientific theories; it is considered inappropriate to decide the merits of competing theories according to the intensity of individual preference. Likewise, for communitarian greens, the value of environmental public goods should be resolved by collective judgement in accordance with the “power of the better argument,” not by a willingness to pay.

The overall essence of the green communitarian case is captured in the distinction that Mark Sagoff (1988) draws 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 noted that the majority of respondents indicated that they would gladly visit the resort to benefit from the recreational opportunities. When he asked this same group of individuals whether they would in fact *support* the construction of the relevant resort, however, many replied in the negative. For Sagoff, the difference between these responses reflects 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 they considered of value to their community *as a whole*. If we do not want to live in a degraded environment, therefore, we should choose collective citizen deliberation over individual consumer choice more often than not.

F. A. Hayek: “The Liberal as Communitarian”

It is evident from the previous sketch that much of the objection to free-market environmentalism stems not from concerns about the practicality of market solutions to

environmental issues, but rather from a rejection of the ontological framework from which these solutions derive.² 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 free-market environmentalists and communitarian greens resembles a dialogue between people who cannot hear or understand one another. Such a resemblance is notably apparent in some recent exchanges between Mark Sagoff, on one side, and Terry Anderson and Donald Leal, on the other. According to Sagoff (1994), free-market environmentalism relies on an aggregate conception of allocative efficiency, scarcely distinguishable from neoclassical welfare economics, and it thus fails to recognize that environmentalists are concerned not with efficiency, but with the *moral* status of conserving the natural world. On the other side, Anderson and Leal accuse Sagoff of providing little more than a sophisticated apology for a disguised form of rent seeking by environmental campaigners (2001, 24).

I do not intend to debate here the virtues of the rational-choice model or to engage deeply in the debate between classical liberals and communitarians that has raged in recent years. Having adopted a liberal rational-choice perspective (see, for example, Pennington 2000), I simply note that many of the objections to this account of human behavior 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. In this section, I sketch the similarities and differences between Hayek's liberalism and modern theories of communitarianism. In the subsequent section, I apply these Hayekian concepts to mount a defense of free-market environmentalism against the communitarian greens' claims.³

The most immediate similarity between Hayekian liberalism and communitarian thinking is evident in the notion of "true" individualism. True individualism acknowledges that individuals are *inherently* social creatures (or *situated selves*, to use communitarian terminology), who acquire many of their preferences, values, and practices in a process of emulation and imitation. For Hayek, true individualism is distinct from the "false" individualism that conceives of society as the rational creation of individuals seeking to design optimal social institutions: "This fact should by itself be sufficient

2. I borrow the phrase "the liberal as communitarian" from the title of an excellent review article (McCann 2002) that compares and contrasts Hayekian liberalism with the main elements of communitarian thought.

3. It should be recognized that Anderson and Leal make excellent use of Hayek's work at various points in their book *Free Market Environmentalism* (2001). They fail, however, to set these arguments in a broader philosophical/epistemological context and as a consequence do not address Sagoff's and other communitarian greens' arguments *on their own terms*.

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” (1948b, 6).

To recognize 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 in large part the unintended by-product of many individual acts, whose effects are beyond the purview of any one actor or group. For Hayek, the defining feature of individuals as social beings is their incapacity, owing to the constitutional limits of the human mind, to comprehend more than a tiny portion of the society of which they are a part. Individuals and organizations are 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, though developing out of the human capacity for communication, emerges as the unintended by-product of multiple communicative acts. As new words and combinations spread by a process of imitation and adaptation, their initiators are *not* consciously aware of how others will use and adapt such practices. 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. In the latter sense, complex social wholes such as language are greater than the sum of their parts.

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

In 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 rights. In accordance with communitarian accounts of ethics, therefore, morality transcends the individual actor and is not reduced to a matter of personal preference. Nonetheless, although 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 organization, a sort of superperson that defines its citizens' ends. The latter conception of social order, favored by communitarians, is, according to Hayek, appropriate only to a tribal society operating according to a narrowly defined set of goals. It is wholly inappropriate to an "open society" in which people have not only communal attachments to the cultural rules and practices that order their behavior, but also the liberty to experiment in the pursuit of a wider variety of different ends.

The emphasis on spontaneous order and a nonintentionalist account of social coordination assume pride of place in Hayek's economics, and particularly in his defense 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, fluctuating market prices communicate in coded form the "circumstances of time and place" that affect dispersed individuals and organizations and can never be comprehended in their entirety (Hayek 1948a, 1948c). Individuals and organizations make bids for resources on the basis of personal preferences and their own personal knowledge about the availability of substitutes, entrepreneurial innovations, and all manner of context-specific factors. As they do so, they contribute incrementally to the formation of prices that transmit their personal bit of information to the actors with whom they are making an exchange. The latter may then adapt their own behavior in light of their own preferences and knowledge, and their adaptations then inform subsequent transactions with still other agents, and so on in a network of ever-increasing complexity. What is crucial is that in order to change their production or consumption patterns in response to shifts in the scarcity of goods, actors need *not* know anything about the complex chain of events that contributes to a rise or fall in prices. This is not to suggest that prices communicate *all* the information necessary to make the appropriate economic adjustments. Market prices do not act as marching orders telling people *how* to respond to changing conditions. Rather, they operate as an invaluable prompt to economizing behavior. Producers and consumers' specific responses in rearranging their production and consumption bundles will always be affected, however, by their own local knowledge and personal appraisal of the market situation in which they are embedded. A producer's response to a rise in input prices, for example, will depend on the actor's entrepreneurial ingenuity in *imagining* alternative combinations of inputs. The information provided by shifting relative prices, therefore, constitutes a necessary though by no means a sufficient condition for economic coordination. What matters to Hayek's critique of socialism is the impossibility for a government planning mechanism to achieve an equivalent level of coordination owing to any organization's or group's cognitive inability to be consciously aware of the multitude components that form a complex economy.

In addition to enabling people to adjust their behavior to changing patterns of relative scarcity, the market economy also acts as a *creative* process in which the

content of scarcity—of “which goods are scarce goods”—is itself discovered and disseminated by competitive emulation (Hayek 1948c, 1978). On the supply side, each entrepreneurial act, such as the offering of a new product or mode of organization, actively creates new knowledge. The resultant profits (and losses) may then be spotted by other firms that imitate the behavior of the successful act and eschew the behavior of the unsuccessful act. On the demand side, meanwhile, consumers learn about new goods and prices in a snowballing process as individuals emulate their neighbors’ purchases and learn about new ways of living by perusing the competing goods displayed in catalogs or other advertisements. In a Hayekian perspective, government planners can 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 because the “right” prices are unknowable in the absence of market competition and the social division of knowledge on which this process draws (Hayek 1948a, 1948b, 1948c, 1978).

The coordination properties of market institutions are, in a Hayekian perspective, not to be confused with a narrowly utilitarian procedure for aggregating individual values into an “efficient” or “optimum” social outcome. To speak of maximization or efficiency is appropriate only in the context of an individual household, organization, or firm that operates according to a *unitary scale of values* for judging what is 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 can 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 among persons pursuing a diversity of ends—an adjustment that increases the chance that any one of these ends might successfully be achieved (Hayek 1973, 114–15).

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 it is based instead on recognition of the *limits* to such forms of social control. Firms in a market economy, for example, are planning organizations that emerge in situations where gains may be realized by replacing spontaneous order with a hierarchy of conscious planning. In order to engage in such planning, however, firms must be embedded in a wider network of spontaneously generated market prices. Or, to put the argument another way, budgeting and other forms of rational planning themselves rely on the existence of market prices such that the firm’s “rational” planning depends on the existence of a “nonrational” market (Lewin 1998). Likewise, there comes a point at which smaller, more flexible competitors exhibit a market edge as the larger firm’s cognitive limits are breached. For Hayek, because we cannot identify the

boundaries of conscious reason in *precise* terms, *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; 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 characterized by complexity, uncertainty, and unintended consequences, a reliance on such processes constitutes a necessary if not a sufficient condition for the successful evolution and coordination of social affairs.

A Hayekian Defense of Free-Market Environmentalism

Hayek's version of liberalism clearly is not susceptible to many of the charges that communitarians level at more orthodox forms of liberal theory. With its socialized 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 defense of the market makes *no* assumptions about individual motivations. The problem is *not* that individuals are insufficiently altruistic and lack the necessary incentives under socialism, but that in the absence of the signaling function of market prices, they can never possess the appropriate *knowledge* to adjust their behavior in a manner consistent with others' interests.

The Limits of Social Consciousness

The latter point is central to Hayekian objections against communitarian proposals that environmental decisions be made collectively by citizens who *consciously* analyze how their actions affect others' lives. In a Hayekian perspective, although 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, either for themselves or for society at large. This is not to suggest that other-regarding behavior is itself impossible, but that such action may occur only 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 and multitudinous others. *The* central problem of social coordination, therefore, is to enable people to adjust to circumstances and interests of which they are not directly aware. For Hayek, this enablement is precisely the role performed by market-generated spontaneous order.

In this light, the normative relevance of the communitarian distinction between altruistic citizenship and selfish consumerism collapses. Consider the earlier example provided by Sagoff, in which it was argued that consumer action to satisfy recreational

wants would favor the construction of a ski resort in a national park, whereas citizen action would oppose the destruction of unspoiled wilderness of value to the community as a whole. At first sight, this example seems to illustrate the merits of the communitarian case, but on closer inspection it fails to justify Sagoff's conclusion.

Sagoff 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 (1988, 80). Rather, such decisions involve trade-offs and marginal adjustments between competing values. Even for communitarians, therefore, it would seem that 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?" (80). With specific regard to the ski resort example, therefore, it is not so much that people have a community-centered 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 discover a mechanism that will help us to decide where new resorts should be developed as well as how many there should be. For Sagoff, such decisions should be made through a deliberative democratic process based on debate and compromise. Precisely at this juncture, however, democratic deliberation faces the epistemological problems highlighted by Hayek. Democratic representatives can never have access to or process the multitude of factors needed to adjust the demand for ski resorts rationally. Information pertaining to ethics, local conditions, pressures on land use, and so forth does not exist as a coherent integrated whole. The dispersed bits of information may be communicated, however, 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. *Regardless* of whether the participants are acting as consumers or citizens, therefore, they are unlikely to bring about the desired process of mutual adjustment without market-derived relative prices.

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. It does suggest, however, 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 rational marginal adjustments. How, for example, are politicians to judge whether to weight the receipt of a phone call from a citizen more or less than the receipt of another citizen's letter or the sight of a third citizen's participation in a demonstration? Even processes of single-issue direct democracy (the preferred method of many communitarian greens) provide no means equivalent to prices for 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 farther down his scale of values (Steele 1992, 316–17).

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 with those arguments 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, in internalizing costs, and hence in overcoming the free-rider problem (see, for example, Baden and Stroup 1979). The Hayekian argument for property rights and markets, however, is by no means dependent on the assumption of individual self-interest and the significance of incentives. Suppose that an individual is altruistically motivated as a concerned citizen to reduce his water consumption to a “socially responsible” amount. In the absence of property rights and market prices for water, the individual has no way to ascertain how much to adjust his consumption to take the interests of others properly into account. As Steele points out, even the most altruistically inclined person faced with this situation is likely to consume as much water as he personally requires *because at least he knows what that amount is*, whereas the “socially responsible” amount of consumption is shrouded in a fog of ignorance (1992, 205).⁴ Such problems will be multiplied many times over, of course, when the choice is between the vast array of production and consumption possibilities that make up an advanced economy and the complex environmental consequences of these possibilities. In short, without the information provided by market-generated relative prices, citizens will find it impossible to communicate their values to one another and to adjust their behavior accordingly.

Preference Elevation and the Market Economy

In a Hayekian perspective, people simply cannot know in some collective or deliberative sense how to act in the public good; therefore, the claim that other-regarding behavior is more likely to be generated by collective choice looks extremely dubious. Equally significant, however, is that many of the educative advantages usually 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 in

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 economy, in which pressures on resource use are subject to considerable fluctuation and where resource demands may vary considerably among actors. In these circumstances, a flexible set of relative resource prices brought about by trading in private markets is more likely to facilitate the necessary mutual adjustment (Alchian and Demsetz 1973).

which the community as a whole can examine the virtue of these values. Seen through a Hayekian lens, this argument rests on a complete non sequitur.

Predetermined or innate preferences in human beings are probably confined to a few basic desires for food, shelter, and sex. As Hayek 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” (1967, 315). The vast majority of the goods that people desire, therefore, are things that they 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). Can anyone suggest seriously that the production and consumption of literature, therefore, ought to be subject to state control and that the *only* literary values exercised in society be those arrived at by majority approval? The “citizen versus consumer” dichotomy central to communitarian thought does not appear to provide clear grounds for deciding whether such decisions should be subject to social-democratic procedures. It might be argued, of course, that because environmental goods are collective goods, democratic-choice mechanisms are the most appropriate. This claim, however, reduces 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 no necessary merit resides in making a 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 them to discover previously unforeseen production and consumption values. Market processes allow contradictory ideas to be tested *simultaneously* against one another without the need for majority approval. Employing the exit option enables 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. Market processes, therefore, allow a greater range of production and consumption decisions to be tried and tested, and hence they bring more knowledge into the public realm than would ever be the case under a strictly majoritarian system. As Wohlgemuth (1995, 1999) observes, the most that majoritarian procedures can do is to conduct consecutive experiments in which only one option or a small set of options is 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 policies. They cannot actively supply alternative packages of goods. The range of plans that may actually be implemented, therefore, will necessarily be less than the range generated in a context of private exchange.

Paradoxical as it may seem, the learning advantages of markets arise because they do not rely heavily on the transmission of knowledge by explicit articulation. This aspect is, of course, one of the primary objects of the complaints that communitarians raise against markets. In a Hayekian perspective, however, although discussion is an impor-

tant way to impart knowledge, and although democracy is or should be government by discussion, this explicit articulation of argument is not the most important way by which people can actually decide what is best (Hayek 1960, 110). On the contrary, a large body of tacit knowledge can be communicated only by multiple examples of private action. A crucial distinction separates the sort of social learning that takes place when people enter into a verbal conversation or read a written text and that which occurs when they observe and emulate the behavior of others (Horwitz 1992; Pennington 2003). The latter exemplifies learning by results—imitating successful courses of action and avoiding unsuccessful ones even when the reasons behind such successes and failures cannot be articulated explicitly. 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 by the articulate persuasion of majorities. Moreover, procedures that rely exclusively on the statement of explicit reasons are likely to exclude systematically those individuals who are less able to engage in articulate persuasion of majorities, but who may still possess valuable knowledge embodied in the exercise of entrepreneurship or a practical skill. Unlike the relatively easy comparisons of value and the knowledge transmission that markets facilitate, which both the rich and the poor, the articulate and the inarticulate, can make, deliberative institutions give special advantage to those skilled in the use of articulate persuasion alone (Pennington 2003, 734). The latter point reflects Hayek's contention in *The Fatal Conceit: The Errors of Socialism* (1988) that intellectuals who tend to be the most vociferous advocates of deliberative democracy overvalue the power of explicit reason in the communication of knowledge.

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, and academia does not proceed by collective deliberation, but rather advances best when individuals and groups have a private sphere that secures the freedom to experiment with projects that do not conform to majority opinions. Then, as a result, 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 in recent years would ever have developed if production decisions in the agricultural sector had been subject to collectivist procedures. For years, organic food was viewed as the concern of hapless eccentrics. 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, more and more people are now able to emulate such role models as the benefits become more visible.⁵

This argument does not suggest that the market process necessarily will generate ideas that are good for the environment, but that a process that allows for a greater

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

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 characterized by an element of disequilibrium. Bad decisions cannot be eliminated from evolution and are essential to a process characterized 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 Shrader-Frechette 1994; Chase 1995). Ecological systems are subject to constant change, both natural and human induced, some of which may be beneficial, some harmful. A process of experimental adaptation akin to that of the market may therefore be more appropriate than steering a sustainable-development path, the approach favored by communitarian greens (see, for example, Jacobs 1997). Indeed, the notion of steering may be totally inappropriate in 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 we have little reason to believe that they can select an appropriate development path, sustainable or otherwise.

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

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. Again, Sagoff’s example about the preservation of wilderness or the development of ski resorts falls clearly into this category. From a Hayekian perspective, however, this tack is an especially weak one. The fundamental reason for instituting property rights over environmental assets is precisely that they allow property owners to say no to inappropriate offers, whether on ethical grounds or for some other reason important to them—rather than having bureaucrats make such judgments. Just as one may refuse to sell the family home to the highest bidder because of personal history or identity, so a property right to a forest or waterway would allow individuals and groups not to sell extraction rights if the compensation offered were inappropriate

to the moral attachments concerned. Monetary payment does not necessarily mean a decrease in moral attachments. There is no evidence to suggest, for example, that in societies in which monetary payment for sexual services is legal, a greater proportion of the population considers prostitution to be a valid career option. Moreover, as Richard Epstein (2003) has argued, to outlaw the offer of monetary payments where moral issues are involved is to devalue actively the ethical fortitude of individuals who resist monetary inducements. If cash payments are utterly inappropriate, then an important social signaling function that indicates different actors' character and values is lost by prohibiting such payments from being made (Epstein 2003, 157).

Communitarian greens complain that the use of a common denominator such as money is inappropriate where incommensurable moral ends are involved and where the aggregation of conflicting values is therefore impossible. As already argued, 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. For Hayek, it is precisely because people have conflicting values that money prices are required to facilitate adjustments among their diverse interests. 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, however, such processes are far less likely to facilitate mutual adjustment than a set of market-generated relative prices. In addition, the all-or-nothing nature of the political process entails that once a majority coalition has been formed, the interests of minorities can easily be ignored as they are effectively forced to consume (and pay for) policies that they did not actually demand. It is therefore an error to suggest that moral values cannot be reflected by the cash nexus because every decision not to buy or sell, for moral or other reasons, will be reflected in the relevant markets.⁶ Moreover, a case surely can be made that it is precisely for the ends 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, while refusing to countenance the possibility that people should be faced directly with the material opportunity costs of such decisions.

Conclusion

In the preceding discussion, I have defended the case for a property-rights approach to issues of environmental protection against the green communitarianism challenge to the liberal market. Unlike existing defenses of free-market environmentalism, however, the defense I have set out adopts a critique that deals with the concerns of the

6. That cultural and moral factors affect relative prices has long been recognized in liberal political economy; see, for example, Mill 1848, book 2, chap. 5.

communitarian greens *on their own terms*. A Hayekian approach is well suited to perform this task and suggests that a focus on the situated self, the systemic nature of environmental problems, and a nonaggregate account of social decisions offers greater support for liberal markets than for a communitarian citizen democracy. Insofar as the extension of private-property arrangements has genuine limits, those limits should be identified by assessing the logistical obstacles to environmental markets and not by making the spurious distinction between the virtues of citizenship and the supposed evils of market-driven consumer choice.

References

- Alchian, A., and H. Demsetz. 1973. The Property Rights Paradigm. *Journal of Economic History* 3: 16–27.
- Anderson, T., and D. Leal. 2001. *Free Market Environmentalism*. 2d ed. New York: Palgrave.
- Baden, J., and R. Stroup. 1979. Property Rights and Natural Resource Management. *Literature of Liberty* 2: 5–44.
- Barber, B. 1984. *Strong Democracy*. Berkeley: University of California Press.
- Barry, J. 1999. *Rethinking Green Politics*. London: Sage.
- Botkin, D. 1990. *Discordant Harmonies*. New York: Oxford University Press.
- Chase, A. 1995. *The Fight over Forests and the Tyranny of Ecology*. Boston: Houghton Mifflin.
- Coase, R. 1960. The Problem of Social Cost. *Journal of Law and Economics* 3: 1–44.
- Daly, H., and J. Cobb. 1989. *For the Common Good*. London: Greenprint.
- De Alessi, L. 2003. Gains from Private Property: The Empirical Evidence. In *Property Rights: Cooperation, Conflict, and Law*, edited by T. Anderson and F. McChesney, 90–112. Princeton, N.J.: Princeton University Press.
- Demsetz, H. 1969. Information and Efficiency: Another Viewpoint. *Journal of Law and Economics* 12: 1–22.
- Dryzek, J. 1987. *Rational Ecology: Environment and Political Economy*. Oxford: Blackwell.
- Epstein, R. 2003. *Skepticism and Freedom*. Chicago: University of Chicago Press.
- Hayek, F. A. 1948a. Economics and Knowledge. In *Individualism and Economic Order*, 33–56. Chicago: University of Chicago Press.
- . 1948b. Individualism: True and False. In *Individualism and Economic Order*, 1–32. Chicago: University of Chicago Press.
- . 1948c. The Use of Knowledge in Society. In *Individualism and Economic Order*, 77–91. Chicago: University of Chicago Press.
- . 1960. *The Constitution of Liberty*. London: Routledge.
- . 1967. The Non Sequitur of the Dependence Effect. In *Studies in Philosophy, Politics, and Economics*, 313–17. London: Routledge.
- . 1973. *Rules and Order*. Chicago: Chicago University Press.
- . 1978. Competition as a Discovery Procedure. In *New Studies in Politics, Economics, and the History of Ideas*, 179–90. London: Routledge.

- . 1988. *The Fatal Conceit: The Errors of Socialism*. London: Routledge.
- Horwitz, S. 1992. Monetary Exchange as an Extra-linguistic Communications Medium. *Review of Social Economy* 50, no. 2: 193–214.
- Jacobs, M. 1997. Environmental Valuation, Deliberative Democracy, and Public Decision-Making Institutions. In *Valuing Nature*, edited by J. Foster, 211–31. London: Routledge.
- Lewin, P. 1998. The Firm, Money, and Economic Calculation: Considering the Institutional Nexus of Market Production. *American Journal of Economics and Sociology* 57 (October): 499–512.
- MacIntyre, A. 1984. *After Virtue*. South Bend: University of Indiana Press.
- McCann, C. R. 2002. F. A. Hayek: The Liberal as Communitarian. *Review of Austrian Economics* 15: 5–34.
- McCoy, E. D., and K. S. Shrader-Frechette. 1994. The Concept of Community in Community Ecology. *Perspectives on Science* 2: 445–75.
- Mill, J. S. 1848. *The Principles of Political Economy*. Oxford: Oxford University Press.
- Ostrom, E. 1990. *Governing the Commons*. Cambridge: Cambridge University Press.
- Pennington, M. 2000. *Planning and the Political Market: Public Choice and the Politics of Government Failure*. London: Athlone Press, Continuum International.
- . 2001. Environmental Markets versus Environmental Deliberation: A Hayekian Critique of Green Political Economy. *New Political Economy* 6, no. 2: 171–90.
- . 2003. Hayekian Political Economy and the Limits of Deliberative Democracy. *Political Studies* 51, no. 4: 722–39.
- Polanyi, M. 1951. *The Logic of Liberty*. Chicago: University of Chicago Press.
- . 1957. *Personal Knowledge*. Chicago: University of Chicago Press.
- Sagoff, M. 1988. *The Economy of the Earth*. Cambridge: Cambridge University Press.
- . 1994. Environmental vs. Value Subjectivism: Rejoinder to Anderson and Leal. *Critical Review* 8: 467–73.
- Smith, G. 2003. *Deliberative Democracy and the Environment*. London: Routledge.
- Steele, D. 1992. *From Marx to Mises*. La Salle, Ill.: Open Court.
- Sugg, I., and R. Kreuter. 1994. *Elephants and Ivory*. London: Institute of Economic Affairs.
- Sunstein, C. 1991. Preferences and Politics. *Philosophy and Public Affairs* 20: 3–24.
- Wohlgemuth, M. 1995. Economic and Political Competition in Neo-classical and Evolutionary Perspective. *Constitutional Political Economy* 6: 71–96.
- . 1999. Entry Barriers in Politics, or: Why Politics, Like Natural Monopoly, Is Not Organised as an On-Going Market Process. *Review of Austrian Economics* 12: 175–200.