

# FREE MARKET ENVIRONMENTALISM VERSUS ENVIRONMENTAL MARKET SOCIALISM: AN AUSTRIAN PERSPECTIVE ON INSTITUTIONAL CHOICE

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**Keywords:** Austrian economics, neoclassical economics, environmental management, free market, socialism, socialist calculation debate, property rights, sustainable development

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## Summary

This chapter seeks to explore the significance of the socialist calculation debate to questions of environmental management from an **Austrian school** perspective. The analysis suggests that the **Mises/Hayek** argument against government economic planning has important implications for institutional responses to environmental problems. Specifically, the focus of contemporary neoclassical economics on the relative merits of command and control and so-called **market based** instruments neglects many of the more significant *epistemological* problems at hand. By working within a static framework, which assumes objective knowledge of human interactions with the natural world, the orthodox neoclassical model reduces questions of policy choice to a matter of generating incentives to achieve centrally determined objectives. An Austrian approach, by contrast, suggests a focus on the institutional processes that can facilitate the *discovery* and communication of as yet ‘unknown’ environmental objectives under open-ended conditions of complexity akin to those that pertain in the natural world itself. It is in this context that this chapter argues the case for a property rights or **free market environmentalist** approach to resource management issues. In view of the economic record of central planning in Eastern Europe and elsewhere, there is little theoretical or empirical justification to suppose that the failings of a ‘Green Leviathan’ will be any less spectacular than those of its industrial equivalents.

## 1. Introduction

A consensus has emerged both within and to some extent outside of the economics profession that the source of environmental problems lies with the lack of appropriate pricing mechanisms for environmental goods. In turn, the notion of introducing

environmental pricing is often associated with a **pro market** discourse as witnessed most clearly in the distinction drawn between **command and control** and so called **market based** policy instruments. The former are frequently associated with a state-centered model based on bureaucratic regulation, whilst the latter are depicted as offering a more flexible mode of decision-making, which makes greater use of the price system.

Notwithstanding the genuine differences between command and control and market based approaches, the dichotomy drawn between these particular policy instruments acts to conceal important theoretical and philosophical differences concerning the nature and social role of market processes and hence obscures some central questions of institutional choice. These questions can be located in the fundamental epistemological differences that distinguish orthodox neoclassical economics from the so-called **Austrian school** of thought and may be traced back to the **socialist calculation debates** of the 1930s and 1940s. This chapter explores the significance of the socialist calculation debate to environmental policy from an Austrian perspective. In doing so, the analysis suggests that questions of institutional choice should *not* revolve around the distinction between **command and control** and **market-based** instruments. Rather, debate should focus on the difference between institutional frameworks that seek to attain *centrally* determined objectives from those allowing environmental values to emerge spontaneously through the *decentralized exchange of enforceable property rights*. As such, the chapter argues the case for a genuinely ‘free market environmentalism’ as an alternative to the **regulated** or **steered** markets, which are common to advocates of both command and control *and* market based instruments alike.

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