

“Command-and-control approaches rely on uniform restrictions and do not meet the equal-marginal rule, whereby marginal [pollution] abatement costs equal marginal abatement benefits and lead to cost-effective means of meeting environmental objectives. Further, they do not encourage experimentation and entrepreneurship because these activities disrupt regulatory arrangements and alliances. They encounter high enforcement costs because they are not incentive compatible with actual users. ... Improving our environment will ultimately depend on entrepreneurship—recognizing the value of natural resources as assets and developing the technology and institutions that encourage resource users to consider the opportunity costs and benefits of their actions—making residual claimants to new, higher values. If property rights are not secure, it will appear that markets fail when the essential ingredient—property rights—for markets is missing.” (Terry Anderson and Gary Libecap, *Environmental Markets*, 215-216)

Questions for discussion:

1. What are the arguments for and against “command and control” policies in the environmental domain?
2. What mechanism do neoliberal or free market environmentalists offer to solve environmental problems?
3. Is it possible to construct an effective mix of neoclassical and neoliberal policy solutions?
4. What does the knowledge necessary to solve environmental problems consist of, and where can we find it?

The question of mechanisms

The question of reason lies at the heart of economics. Debates between economists turn on what reason leads people to do (do they act like sheep or wolves?), while external critiques *of* economics effectively assert that the whole enterprise is unreasonable. These principled debates spill directly into the policy realm: where sheepish economists advocate some version of central direction, wolfish economists advocate some version of decentralised market discovery. Critics, meanwhile, advocate an entirely different—even revolutionary—alternative (more on that next week). What’s at stake here? On the surface, the issue concerns the veracity of the rational actor model: if people are perfectly rational, in the sense that they respond reliably to objective costs and benefits, then the economist can build a model of the market to identify the (full, social) prices of environmental goods and harms. This knowledge can then be used to design interventions that either encourage or mandate people to behave in more socially efficient ways. If, however, the rational actor model is incorrect (because people do not have access to perfect knowledge *ex ante*) or incomplete (because it does not model the political process and its margins), then the economist will tend to argue that the market needs to be strengthened to provide opportunities for entrepreneurial discovery.

Underneath the surface, however, things are more complicated. How does the economist know what reasons explain people’s actions? Economists tend to assert that whatever behaviour obtains must be rational, and then use this assertion to predict that future behaviour will resemble past behaviour. But this is equivalent to saying that people always *want* the outcomes they experience. Beliefs are expunged from the analysis, and the only moving part in the economist’s explanation is individual motivations. No one ever makes a mistake; they are simply forced by circumstances to make “suboptimal choices”. The solution is therefore to change the individual’s circumstances. Neoliberals seem to recognise the problem here, because they deny that people are infallible in the ways mainstream economists assume. It would seem, then, that beliefs will be allowed back into the analysis. But we should be wary of the word “knowledge” (as in “knowledge problems”) because this has nothing to do with beliefs. You either know, or you (know that you) don’t know. You’ve either found an entrepreneurial or negotiated commons solution, or you (know that you) still need to find one. Where does *this* knowledge come from? Neoliberals are oblivious to the question, which suggests that, like neoclassical economists, they think the answer is supplied by “costs and benefits”. If, however, costs and benefits are not real in the world, but only perceptions in the mind, how do we recognise them? And how would we know if we made a mistake?