

## WHAT SHOULD AUSTRIAN ECONOMISTS DO? ON DOLAN ON THE AUSTRIAN PARADIGM IN ENVIRONMENTAL ECONOMICS

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My education in Austrian Economics began in earnest shortly before I started grad school at Washington University in Saint Louis. The Center for the Study of American Business had just become the Murray Weidenbaum Center and had left a small mountain of books on a table in the Economics Department's mailroom for anyone to take. Among the books I picked up were Ludwig Lachmann's *Capital, Expectations, and the Market Process* and a book that was central to the "Austrian Revival" of the 1970s: Edwin Dolan's edited volume *Foundations of Modern Austrian Economics*. I was therefore flattered to see myself cited in his paper "The Austrian Paradigm in Environmental Economics: Theory and Practice" and to be invited to offer a comment. Dolan's call for applied research that makes distinctively Austrian contributions, addresses important problems, and offers suggestions for public policy is important, and it should inspire scholars to look for specific areas to which the Austrian paradigm contributes. It's a call that has been answered by

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Austrian-influenced scholars like Elinor Ostrom, and, in turn, the people Ostrom and others have influenced.

My position on Dolan's paper could best be described as "qualified agreement." Dolan is exactly right: Austrian economics offers a "distinctive paradigm," and this is "a necessary, not a sufficient, condition" for "a scientific revolution." Some scholarship in the Austrian tradition today opens itself to the charge that it is textual exegesis—what did Mises *really* mean? What did Rothbard say about X? Which block quote from *The Constitution of Liberty* is most relevant to this particular issue?—rather than applied scientific investigation. It would be easy to dodge Dolan's challenge, appeal to Hayek's claim that one of our jobs as economists is to make the politically impossible possible, and go on asking about how a perfect Austrian/Libertarian Utopia would actually work. This takes up the scientific challenge Karl Marx and the socialists ignored, but Dolan is correct in noting that there are still serious institutional difficulties that make the real world a much more complicated place than our models (mainstream or Austrian) suggest.

As matters of abstract theory, exercises that assume perfect (or nearly-perfect) institutional environments can help us identify the relevant moving parts. Consider the powerful insight we get from a version of the Coase Theorem: *if* property rights are clearly-defined and well-enforced, and *if* transaction costs are low, *then* people will bargain to efficient outcomes. What Dolan suggests is not a substitute for abstract theorizing but a complement to and application of such work. Dolan is right that Austrians and libertarians commit their own version of the Nirvana Fallacy by assuming that the courts work. "Why would we expect them to," "why don't they," and "what are the sources of transaction costs that prevent coordination" are powerful and important research questions. Adding a richer institutional environment to the analysis is a next step now that the theoretical groundwork is in place.

Dolan valuably exhorts people to adopt a comparative institutional perspective on how property rights emerge and how societies develop ways to cope with collective action problems and manage common pool resources. Here I want to be clear: I am referring to "property rights" in a positive sense rather than a normative sense. Positive political economy—or *wertfrei* praxeology—is in the business of explaining the implications of different arrangements

of institutions, not of determining whether a particular institution is just or not.

There are obvious examples in which a crime has clearly been committed: a neighbor who dumps garbage on my yard has clearly violated my property rights and should be made liable for any damage. Things are not so clear when my neighbor burns garbage.<sup>1</sup> Identifying and enforcing property rights is costly, and there remains a lot of valuable empirical work to be done on the cases in which invasions become so onerous that people start to take legal action. Empirically, does the pleasant smell of burning leaves or burning garbage tend to offset the pollution damage? Do the external costs and benefits matter at the margin?

This is an empirical question, but I would suspect that any private court willing to jail people for minor trespasses (like trace amounts of smoke from my neighbor's grill invading my lungs) will not stay in business for very long. Custom and the institutions of civil society are also extremely important, as Block (2008) acknowledges, and this is where the legal gray areas emerge. We take for granted in our neighborhood that it is OK for people to grill out or burn yard waste in a fire pit occasionally, and informal social approbation or sanction will often be sufficient to make sure that legal intervention is not necessary.

Austrian and libertarian analyses of environmental problems—or of all problems—would benefit from deeper engagement with the history of property rights as they have actually evolved. Hasnas (1996, 2009) has explored the history of property rights and has noticed that the evolution of law has little to do with abstract justice and a lot to do with facilitating coordination and cooperation. Todd (2009) offers a brief and accessible treatment of the history of property rights that would help scholars working in the Austrian tradition to offer the richer institutional and historical context Dolan wants. The growing field of environmental history would benefit from engagement with economics, and in turn economists interested in environmental issues can likely find the detailed historical case studies that provide the analytical stuff of robust, unique, and policy-relevant contributions.

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<sup>1</sup> This is an example from Martin Anderson (1989) as quoted by Block (1990) and discussed by Dolan.

Pigovian taxes and emissions trading are clear improvements over command-and-control, but they come with their own institutional baggage. The knowledge-and-calculation problems Cordato (2004) and Carden (2013) explore are clear, but there are other germane questions in political economy that are relevant to taxes and emissions trading. In addition to the problems highlighted by Cordato (2004) and Carden (2013), Pigovian taxes and emissions trading schemes will likely create unintended (and negative) consequences when markets are incomplete. Taxing carbon emissions, for example, will move production and consumption decisions from the taxed margin to untaxed margins. While this might lead to environmental improvements, it also might lead to greater emissions of even more dangerous greenhouse gases like methane.

Second, the calculation objection to emissions trading schemes is more than a simple “how do you know?” conversation stopper. Finding the “right” amount of emissions to allow might require some trial and error, but credible commitment remains an important potential obstacle. What incentive is there for a state to specify a particular level of carbon emissions that will be allowed each year and then not change this in response to political pressure? The information needed to know whether a particular regulation “works” quite literally does not exist, and the key difference between firms and governments is that firms trying to decide how much to advertise have market tests for their decisions. Governments do not.

We need to do a better job separating Austrian economics from libertarian political philosophy. I worry that Dolan has conflated the two as he uses “Austrian” and “libertarian” interchangeably throughout his article. While it is easy to switch between one and the other in analyzing environmental problems or law, they have to be kept separate for analytical purposes. Positive questions like “What happens given secure private property rights?” “What kinds of property rights do we observe in practice?” and “How do those property rights emerge?” are different questions from the normative question about which property rights are actually property *rights*.

Fortunately, scholars are already doing what Dolan suggests. There are a lot of people who publish in Austrian journals and who attend scholarly meetings like the Austrian Economics

Research Conference and the Society for the Development of Austrian Economics who are doing work exploring how people manage common pool resources or address collective action problems. I do not need to rehearse an exhaustive list here, but Peter Leeson's work on anarchy and piratical communities and Christopher Coyne's work on institution-building should be required reading for anyone in the social sciences. My former undergraduate student Trey Carson is, as of this writing, working on a project at George Mason University discussing how private and government actors reacted to the Memphis Yellow Fever Epidemic of 1878.

One obviously does not need to publish in Austrian journals or attend Austrian meetings to make contributions that are either a part or a complement to the Austrian tradition. Elinor Ostrom is a perfect example; her work on polycentric order, institutions, and emergent governance was influenced by Hayek and won her a well-deserved Nobel Prize in 2009. Anthropologist Jean Ensminger's work on land titling in Africa shows how developing property titles at odds with underlying cultural rules and norms can be destined to fail (Ensminger, 1992). William Easterly, another Hayek devotee, has written three books about our failure to create economic development from the top down, and in his most recent book (Easterly, 2014) he explores the development debate that never happened between F.A. Hayek and Gunnar Myrdal and goes on to explain development experts' enthusiasm for top-down as opposed to bottom-up approaches to poverty.

Dolan offers a powerful exhortation toward better, more applied research that answers important empirical questions. Austrian economists have a unique set of tools, and the abundance of raw material emanating from law, history, and other fields means that we have an almost unlimited number of ways to use those unique tools to improve our understanding of a complex world and how it works. We should follow Ronald Coase's advice and "look out the window" to see how it actually works. Ostrom did, and she changed the world of scholarship on these issues.

So let us get to work. As Dolan points out, we have an entire world to understand and a unique set of tools with which to understand it.

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