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2002

# Valuing cooperation and participation : a challenge to standard normative economics

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# Valuing Co-operation and Participation : *A Challenge to Standard Normative Economics\**

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June 25, 2010

## 1 INTRODUCTION

The idea that this book intends to promote – namely, that co-operation and participation are two key concepts when dealing with agri-environmental problems – contrasts sharply with views commonly held on the subject just twenty years ago. At that time, economic and environmental issues were thought to be resolved thanks to either a ‘command and control’ or the ‘laissez-faire’ system. This belief, substantiated by the well-known fundamental theorem of welfare economics, left no room for a discussion of other conceivable policies and especially co-operative strategies. Furthermore, the force of utilitarian arguments led economists to disregard compelling arguments belonging to the other realm of human motivation, morality. As a result, they believed, and will probably believe for a long time to come, that selfishness can save the environment. However, it is widely acknowledged that the utilitarian stance of welfare economics is ill-equipped to handle policy issues in this area, and there is increasing evidence that its traditional recipes have failed. I shall argue that traditional welfare economics is unable to recognise the virtues of co-operation as an alternative to command and control or laissez-faire. Moreover, the principle of selfishness has revealed itself to be counterproductive. In contrast, it is widely thought that it threatens the integrity of our social fabric. In this chapter, I shall not argue that an appeal to the morality of individuals is a more appropriate response to environmental issues than an appeal to their egoism. I do not subscribe to the view that human nature should be changed. Neither do I believe that economists should replace their selfish model of human behaviour with an altruist one. However, I argue that this model of human behaviour should be extended in order to take into account moral motives along with selfish ones. I argue that such an extension would be necessary to bear out our intuitions regarding the ability of co-operative strategies to cope with environmental issues.

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\* published in Hagedorn, K. (ed.) (2002): *Environmental Cooperation and Institutional Change: Theories and Policies for European Agriculture*. Cheltenham, Northampton, USA: Edward Elgar

<sup>†</sup>The author thanks Patrick Rio, Mabel Tidball and Sophie Thoyer for helpful comments. The usual disclaimer applies. Research supported by the Région Nord-Pas-de-Calais and the ISA (Lille). Part of this chapter was written while I was staying at the ISA (Lille) and the INRA- ESR (Montpellier); I would like to acknowledge their hospitality.

## 2 UTILITARIANISM AND BEYOND<sup>1</sup>

Utilitarianism<sup>2</sup> was originally designed and most successfully proposed as a guide to policy makers<sup>3</sup>. For that reason, following the lines of Kymlicka (1999), I shall interpret it as a ‘standard of rightness’.

**Definition 1.** Utilitarianism as a standard of rightness. An act (or policy) is right if it maximises utility.

Economists have found in utilitarianism a ready-made, highly-sophisticated and convenient form of assessing public policies. It relentlessly endorsed the view, initiated by J. Bentham, that governments should promote ‘the greatest good for the greatest number’. As a result, economics is biased in favour of a specific conception of governments and public regulators’ tasks: the command and control view. Following this view, the government should specify an objective for society, which is usually to maximise a social welfare function. Then, alternative policies should be evaluated on the basis of the overall amount of social welfare predicted in consequent states of affairs. That is to say, the government or the public regulator should predict the consequences of alternative policies on social welfare, rank alternative policies given their consequences, select that which ranks higher and implement it. This particular conception has dominated debates for the past thirty years. However, it has been increasingly questioned in recent years as opinions have become increasingly aware of the limited ability of governments to plan for the social good. Contractualist and Libertarian schools of thought have benefited from this shift and gained a wider audience (Sugden 1993, p. 1948). Both of these schools advance alternative views with regards to which policies are acceptable.

**Definition 2.** Contractualism. ‘An act is wrong if its performance under the circumstances would be disallowed by any system of rules for the general regulation of behaviour which no one could reasonably reject as a basis for informed, unforced general agreement<sup>4</sup>’.

Loosely speaking, contractualism means that a public policy is acceptable if it does not offend the particular system of rules that has been hypothetically agreed upon by the members of the community. It is important to note that this system will differ across communities according to prevailing social norms (see Scanlon 1982).

**Definition 3.** Libertarianism. ‘Everyone has the general right to liberty’ (Narveson 1998, p. 4). An act (or policy) is wrong if it infringes upon this general right<sup>5</sup>.

Libertarian thinkers believe that liberty is closely related to property rights. More precisely, they hold that people naturally possess themselves and that individuals cannot be regarded as

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<sup>1</sup> See Sen and Williams (1982).

<sup>2</sup> Kymlicka (1999) provides an excellent introduction to political philosophy in general and utilitarianism in particular. See also Rawls (1997), Hare (1982) and Goodin (1991) for examples. Utilitarianism has been extensively debated among economic scholars; see articles by Dasgupta, Hammond, Harsanyi and Mirlees in Sen and Williams (1982). Also, see Hausman and McPherson (1993) and Roemer (1996).

<sup>3</sup> Utilitarianism has also been interpreted as a theory of individual deliberation. According to this view, ‘each individual act must be judged directly in terms of the utilitarian criterion. Thus a morally right act is one that, in the situation the actor is actually in, will maximise social utility’ (Harsanyi 1982). However, this specific form of utilitarianism, known as ‘act utilitarianism’ (this term has been coined by Brandt), is hardly convincing. On this point, see Harsanyi (1982), Goodin (1991) and Kymlicka (1999), for example.

<sup>4</sup> As defined by Scanlon (1982).

<sup>5</sup> This definition is adapted from Narveson (1998). This review article contains an outstanding clarification of libertarian philosophy.

authentically free if they are denied this essential right to self-ownership. Therefore, a public policy is right if it does not infringe upon an individual's property rights (see Narveson 1998). However, both contractualism and libertarianism rely on a similar conception of society. Sugden (1993) summarised it as follows: 'Society is seen as a system of co-operation among individuals for their mutual advantage. According to this view, the primary role of government is not to maximise the social good, but rather to maintain a framework of rules within which individuals are left free to pursue their own ends'<sup>6</sup>. As a result, utilitarianism, contractualism and libertarianism offer different accounts of what is valuable. While utilitarianism is focused on the well-being facet of morality, libertarianism promotes values which belong to the action facet, liberty and individual accomplishments<sup>7</sup><sup>8</sup>. In contrast, contractualism is not a substantive moral theory. Rather, contractualism advances an ingenious method to identify and legitimate a particular moral view for a society<sup>9</sup>. The conception advocated will differ according to the values held by individuals. If it cannot be denied that utility consequences of social policies are highly relevant to the evaluation of such policies, it can still be argued that a social state is not fully described if only the utility of agents is provided. Consequently, we should be concerned with how policies score with regards to other values (efficiency, freedom, equality, safety, community and co-operation, to mention a few). Moreover, it has been argued that the very process through which outcomes are reached should fall under the scope of the assessment<sup>10</sup>. Hahn (1982, p. 188), for example, contends that 'my utility may not only depend on what I (or others) get but on the manner in which I get it. That is, my utility may not only depend on the consequences of policy but on the policy itself.' In order to take outcomes along with procedures into account, the traditional informational framework of welfare economics should be extended. Indeed, several routes have been proposed. However, most policy discussions rely on the narrow framework of traditional normative economics. Therefore, values embedded into co-operation and participation are usually not properly taken into account and co-operative strategies are denied effectiveness. As a result, command and control, or as we shall see a disguised form of command and control, is still widely advocated.

### 3 COMMANDS, CONTROLS AND MARKET

For many years, all policy discussions have been relying, more or less implicitly, upon what is called the Fundamental Theorem of Welfare Economics (FTWE). No doubt, this result has been one of the most appealing and meaningful of mainstream economics. The theorem divides in two parts.

**Theorem 4.** *Fundamental Theorem of Welfare Economics.*

**Part 1:** *Under certain conditions and if markets are complete, a competitive equilibrium is Pareto optimal.*

**Part 2:** *Under more restrictive conditions (households' preferences and firms' production possibility sets are convex) and if markets are complete, any Pareto optimum can be sustained as a competitive equilibrium.*

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<sup>6</sup>See also Sen's reply to Sugden, in Sen (1995).

<sup>7</sup>On the distinction between the 'well-being' facet and the 'action' facets, see Sen (1993).

<sup>8</sup>However, this point should certainly be qualified as follows: 'libertarians would like it to be the case that protecting freedom also makes people better' (Hausman and McPherson 1993, p. 704).

<sup>9</sup>See Hausman and McPherson (1993, p. 708). See also Scanlon (1982).

<sup>10</sup>On this issue see Hahn (1982), Moulin (1997) and Suzumura (1999), for instance.

The first part of the theorem provides what is regarded as a definitive proof of the commonplace belief in market efficiency. This point needs no further elaboration. Therefore, let us focus our attention on the second part of the theorem. Consider an economy of complete information. Suppose that, in this economy, agents possess an initial endowment of commodities. Then, we know from FTWE part 2 that the state can pick out any Pareto optimal allocation and implement it by means of a decentralised procedure. The procedure goes as follows:

1. the State announces a set of prices; one for each and every commodity;
2. the State imposes lump-sum taxes and subsidies in order to rearrange the initial endowments;
3. finally, it allows individuals to trade at these prices under their budget constraint.

However, it may be noted that if, as is usually assumed, the State has all the necessary information, it can do without the mediation of markets. That is, by means of direct expropriation and redistribution, the State may enforce the chosen optimal allocation. Are these two mechanisms equally effective? It is widely acknowledged that the answer is negative: 'for the set of "messages" the state must transmit under the command mode of planning will far exceed the set of messages it must transmit under the price mechanism' (Hammond 1982, p. 205); the command and control mechanism is judged costly. In the world we know, part of the information is held privately and concealed by individual agents. Consequently, the information necessary for public policies appraisal is usually wanting. This point was emphasised by F.V. Hayek more than fifty years ago in the course of the socialist calculation debate. Hayek's early critique of the command and control mechanism was articulated around his own theory of knowledge. He contended that the information embedded in price is richer than that usually available to the policy maker. For that reason, he advocated the market mechanism as an alternative to command and control. Modern microeconomics, and especially the economics of information, emphasises that information is asymmetrically allocated and as a consequence may be used strategically. These asymmetries impose additional constraints on policy makers' choices. Moreover, it has been shown that market mechanisms might be used in order to reveal information. This collection of arguments has contributed to shifting the attention from command and control policies to market-based policies. However, it is noteworthy that both these mechanisms are outcome-driven. Consequently, they stand against a hierarchical conception of society<sup>11</sup>. This conception is at variance with the one that libertarians advocate. Indeed, libertarian thinkers regard markets as intrinsically valuable. A clear illustration of this view is provided by Suzumura (1999, p. 26):

In addition to these instrumental values, competition allegedly has an intrinsic value of its own. It is the unique mechanism through which an economic agent can try out his/her own initiative and responsibility. It is true that the mechanism of competition can be very cruel and wasteful in weeding out the winners from the losers. It is also true that the freedom rendered by this mechanism is crucially conditioned by the initial distribution of assets and capabilities. However, these valid reservations do not change one iota of the fact that competition is a process which provides each agent with an equal and free opportunity to pursue his/her own aspirations in life.

By contrast, standard welfare economics disregards the intrinsic value of markets. According to this view, market processes are valuable only insofar as they provide an efficient way to reach

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<sup>11</sup> Namely, they imply that a central agent choose a particular outcome.

good outcomes. Their value is, thus, derivative. As we shall see later in the chapter, this attitude is a feature of consequential ethics. To get at the heart of the matter, let us consider the commonplace prescriptions of standard welfare economics with reference to environmental issues. The scholar most responsible for highlighting the potential merits of the market mechanism when externalities are widespread is, no doubt, Charles Pigou. The arguments he advanced have provided a sound underpinning to economists' advocacy of a market-based environmentalism (MBE). Environmental issues are difficult to handle. The difficulty stems from the existence of widespread externalities. As a consequence of these externalities, markets are incomplete and therefore the FTWE is no longer true. Proponents of MBE believe that market failures might be overcome by using markets against themselves (Cordato 1997)<sup>12</sup>. The suggested process is somewhat similar to the one described earlier. In short, it requires the policy maker to select an (second-best) outcome and impose lump-sum taxes and subsidies. It aims at altering individual incentives so that the market system implements the selected outcome. An attractive feature of MBE-based policies is their pragmatism. MBE policies rely on selfishness. They do not appeal to people's morality in order to cope with environmental problems; they do not require a change in human nature, either. Rather, they acknowledge our selfish motives and retain them as a basis for the design of new policies. These policies aim at inducing selfish agents to interact in a way that promotes the common good.

## 4 UTILITARIANISM AS AN EVALUATIVE SYSTEM

I introduced utilitarianism as a standard of rightness at the beginning of this chapter. Now, the time has come to define the premises of utilitarianism. I argue that utilitarianism as an evaluative system deeply restricts the kind of arguments that can be advanced in favour of co-operative or participative policies. Utilitarianism is usually broken into three components: consequentialism, welfarism and utility maximisation<sup>13</sup>. Each of these components, when added, further restricts the kind of information that is available for the assessment of public policies<sup>14</sup>.

### 4.1 Consequentialism<sup>15</sup>

Utilitarianism requires a consequentialist form of assessing public policies. Loosely speaking, consequentialism has it that the rightness of an action should be judged by the goodness of its consequences. Under this view, a public policy derives its value from its effectiveness in promoting some kind of good. The particular kind of good referred to by utilitarianism is utility. Various competing environmental ethics are expressed in similar (consequentialist) terms. Leopold's Ecocentrism is such an example. It asserts that a 'thing is right when it tends to preserve the integrity, stability and beauty of the biotic community'<sup>16</sup>. It is important to note that these two positions differ according to who or what (for instance, non-sentient life) is regarded as morally significant. Mainstream environmentalism<sup>17</sup> usually rejects the atomistic conception of society

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<sup>12</sup>For a general critique of MBE policies, and especially of tradable permits and green taxes, see Cordato (1997).

<sup>13</sup>On the factorisation of utilitarianism, see also Sen (1977, 1979) and Sen (1993, chapt. 2).

<sup>14</sup>However, this is neither the time nor the place for an examination of comparability assumptions. On this issue, see Sen (1977, 1995) and Blackorby, Donaldson and Weymark (1984).

<sup>15</sup>On the distinction between consequential and non-consequential ethics see Davis (1991) and Pettit (1991). Throughout this chapter I shall make no difference between non-consequential and deontological concerns.

<sup>16</sup>Leopold (1968), cited in *The Internet Encyclopedia to Philosophy*.

<sup>17</sup>For an elucidation of several environmental ethics see Brook (1993). See also, Elliot (1991) and Pearce and Turner (1990, chapt. 15).

in favour of holism. Furthermore, mainstream environmental ethics are usually expressed in deontological (or non-consequential) terms. Deontologists believe that 'acts are wrong because of the sort of act they are' (Davis 1991). For that reason, they argue that 'we need not speculate about the projected consequences of our acts, or attempt to calculate their value' (Davis 1991). The debate over global warming and pollution trading has underlined the contrast between mainstream economics and mainstream environmentalism. This contrast is usually understood as one between consequential and deontological ethics.

The idea of pollution trading has been endorsed and promoted by most mainstream economists. Also, at the insistence of the United States, a provision was introduced in the global climate treaty signed in Kyoto in 1997. The idea of emissions trading is quite simple: The case for a trading of emissions permits stems from extensive evidence that a reduction of emissions could be achieved at a lower cost in the developing world. Nordhaus (in Sagoff 1999), for example, contends that a 50 per cent reduction in pollution from the dirtiest industries in Russia or India would be less costly to achieve than a 20 per cent reduction in European or US industries. Yet, substantial emissions reductions are not conceivable in the near future for at least two reasons. First, developing countries alone cannot bear the cost of such reductions. Second, they have not sufficiently acquired skill in environmentally friendly technologies. Pollution trading proponents argue that there is room for a mutually advantageous bargain. On the one hand, developed countries could assist less advanced ones to convert to cleaner technologies. On the other hand, developed countries could credit themselves with such reduction with regards to their own goals. However, this consequential 'gibberish' is hardly comprehensible from an environmentalist's viewpoint and the idea that emissions credits could be traded has been vigorously fought. Michael J. Sandel, among others, contended that 'it turns pollution into a commodity to be bought and sold' and removes 'the moral stigma that is properly associated with it'<sup>18</sup>. That is, he asserts that emissions permits trading is morally wrong not by virtue of its consequences but because it violates deontological constraints. Pettit (1991, p. 231) has advanced an original elucidation of the distinction between consequential and deontological ethics. He suggests that we rephrase their definitions as specific views regarding the relations between agents and values:

Consequentialists see the relation between values and agents as an instrumental one: agents are required to produce whatever actions have the property of promoting a designated value, even actions that fail to honour it. Opponents of consequentialism see the relation between values and agents as a non-instrumental one: agents are required or at least allowed to let their actions exemplify a designated value, even if it makes for a lesser realisation of the value overall.

These new formulations allow us to reformulate the positions held concerning the permit trading controversy by economists, on the one hand, and environmentalists, on the other hand. Economists believe that what is valuable is the reduction of global greenhouse emissions. According to this view, policies should be assessed solely on the basis of their consequences on global climate. Locally, emission permits trading may result in low reductions; however, it may be globally successful. From that standpoint, the spatial distribution of emission reductions is irrelevant. By contrast, environmentalists believe that emissions are intrinsically evil. Therefore, they require that we refrain from emitting greenhouse gases. Such a requirement applies to each (individual or institutional) moral agent and is to be met by each moral agent individually. Thus, it leaves no room for trade in emissions. Environmentalists would certainly recognise that this scheme is prone to be costly and economically inefficient. Yet, from their standpoint, the global

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<sup>18</sup>Sandel, M.J., 'It's immoral to buy the right to pollute', *The New York Times*, December 15, 1997 cited in Sagoff (1999).

level of greenhouse reduction and its associated global cost are irrelevant. What counts is that we refrain from emitting greenhouse gases. Consequently, economists and environmentalists advance contrasting views regarding the function of public regulation and law. As Hirschman<sup>19</sup> puts it, 'economists often propose to deal with unethical or antisocial behaviour by raising the cost of that behaviour rather than by proclaiming standards and imposing prohibitions and sanctions . . .'. In so doing, they disregard a basic function of law which is: to 'stigmatise antisocial behaviour and thereby to influence citizens' values and behaviour codes. This educational, value moulding function of the law is as important as its deterrent and repressive functions<sup>20</sup>. Environmentalists and philosophers like M.J. Sandel certainly have this function in mind when they condemn pollution trading policies. They emphasise that public policies and laws contribute to shaping individual preferences – a position that utilitarianism is ill-equipped to understand in that it assumes that preferences are exogenous; that is, are fixed attributes of individuals<sup>21</sup>. I shall return to this point at the end of the chapter. However, if I understand them correctly, environmentalists seem to assert their position against an implicitly consequential argument, the value moulding function of law. This point illustrates a general difficulty with deontological theories. On the one hand, most of them seem to be motivated by an implicit concern for consequences. On the other hand, most of them require a 'catastrophe clause' in order to deal with extreme or dire situations (see Sen 1995 or Nozick and Davis 1991). For that reason, Honderich (1996) has challenged the usual distinction between consequential and deontological motives. Actually, it is doubtful that one could design a convincing theory of public morality that would not take the consequences of policies as meaningful; that is, a purely non-consequential theory of public morality. Therefore, consequentialism seems to be an attractive feature of utilitarianism.

## 4.2 Welfarist Consequentialism

The specific kind of good that utilitarians intend to promote is well-being, or should I say a distinctive understanding of what well-being is. In reality, they usually do not distinguish the well-being experienced by an individual agent in a given social state from his utility level (in that social state). This view is usually referred to as 'welfarism'. Definition 4: Welfarism. 'The goodness of a state of affairs must be judged exclusively by the individual utilities in the respective states' (see Sen 1977, 1979, 1993). Welfarism takes individual utilities as the fabric of social welfare. The combination of consequentialism and welfarism imposes severe and clear-cut constraints on the information available in view of policy discussions. It is quite difficult to substantiate this restriction within the consequentialist framework. The particular kind of consequentialism it produces, welfarist consequentialism, prohibits the use of all non-utility information. This exclusive focus on well-being conflicts with our understanding of what is valuable in our daily life. Because we value freedom, equality and safety but also friendship, landscapes, or nature and so on, we cannot subscribe to such a restricted picture of our morality. Our values are manifold<sup>22</sup>, and a minimal requirement that the evaluative system should meet is to acknowledge this fact. Therefore, the range of values that is taken into account in both consequential and deontological ways should be enlarged. This observation has motivated several contemporary developments

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<sup>19</sup>Hirschman (1985) cited in Gintis and Romer (1998).

<sup>20</sup>Hirschman (1985) cited in Gintis and Romer (1998).

<sup>21</sup>A classical illustration of this position is Thomas Hobbes' 'mushrooms metaphor'. Hobbes suggested that we 'consider men as if but even now sprung out of the earth, and suddenly (like mushrooms), come to full maturity, without any kind of engagement with each other' [Thomas Hobbes] (Bowles 1998).

<sup>22</sup>Indeed, many environmental ethics that compete with utilitarianism have espoused distinct values. For an elucidation of the ethical structure of various environmental ethics, see Brook (1993). Also, see Elliot (1991) and Pearce and Turner (1990, chapt. 15).

in political philosophy such as Rawls's theory of justice or Sen's theory of 'capabilities' and 'functionings'<sup>23</sup>.

### 4.3 Maximisation of Utility

Once we have agreed that the evaluative system should be consequential and should promote well-being, we still have to specify what our concern for consequences requires us to do. Utilitarianists believe that the appropriate reading of consequentialism is a requirement to maximise well-being. Kymlicka (1999) has questioned this point. This issue falls beyond the scope of this chapter. However, the usual philosophical justification that utilitarianists provide for welfare maximisation is directly relevant. The more convincing and appealing argument relies on an interpretation of utilitarianism as a principle of preference aggregation. Following this line, utility maximisation is the best way to guarantee a fair treatment to individuals. The argument goes as follows:

1. 'individuals count, and they count equally; therefore
2. each individual's interest should receive a similar weight; thus
3. morally good actions will maximise utility' (Kymlicka 1999, my translation)<sup>24</sup>.

However paradoxical this justification might seem to be for a reader fed with critical accounts of utilitarianism that highlights its insensitivity to inequality, it is consistent with old utilitarian concerns and especially the liberal conception of society they defended. In this respect, it can be noted that if human rights originated 'as normative responses to experiences of oppression' (Winston 1999), this has also been the case with utilitarianism. However, a window of escape has been offered. It has been argued that the 'utilitarian calculus' is not to blame for the inequalitarian conclusions. The fault is to be found elsewhere; in the collection of interests and desires taken into account. Some of these are illegitimate, especially 'external preferences', and thus morally meaningless and should, therefore, be excluded. When illegitimate preferences are excluded, utilitarianism gains in attractiveness.

## 5 WHAT'S WRONG WITH THE UTILITARIAN STANCE OF ECONOMICS?

The usual justification for utilitarianism seems rather convincing and its motives, generous. However, its practical recommendations offend our intuitions with regards to what is valuable. We have seen that this problem stems from its narrow informational basis. We illustrate the inadequacy of utilitarianism with two examples. First, we consider the treatment of individual rights in standard welfare economics. Welfare economics value participation and individual rights only insofar as they promote utility. In contrast, we usually regard them as valuable in their own right

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<sup>23</sup>For an outstanding elucidation of Sen's theory of justice, see Sugden (1993). Sen's list of intrinsically valuable functionings acknowledges our manifold values; Sugden notes that it includes among other things 'being happy', 'acting freely', 'being able to choose' but also 'appearing in public without shame' and 'taking part in the life of the community' (Sugden 1993, p. 1952). Also, see Roemer (1996).

<sup>24</sup>See also Scanlon (1982): 'If all that counts morally is the well-being of individuals, no one of whom is singled out as counting for more than the others, and if all that matters in the case of each individual is the degree to which his or her well-being is affected, then it would seem to follow that the basis of moral appraisal is the goal of maximising the sum of individual well-being'.

(or intrinsically valuable). Whether or not individual rights will be respected and participation required depends on the particular procedure that the social planner has designed to implement the selected outcome. Therefore, means as well as ends matter and our assessment should take into account procedures along with outcomes. Second, we consider the potential conflicts between communities' values and incentive-based politics. We have already noted that utilitarian policies might break socially beneficial moral taboos and social norms<sup>25</sup>, as in the case of tradable permits. Moreover, it is plausible that policies affect preferences. Most economists neglect these two effects. However, they may weaken social ties and be detrimental to social cooperation. Therefore, economic analysis should be concerned with the consequences of policies on communities and prevailing social norms that sustain them. Both these points emphasise that the traditional framework of normative economics should be extended.

## 5.1 Utilitarianism, Rights and the Environment

The question of rights is a challenging issue for utilitarianism. Contrary to what is thought, it is simply not true that utilitarianism is unable to recognise rights as valuable. In reality, it is their intrinsic value that utilitarianism fails to take into account; their instrumental value is fully acknowledged. This attitude towards rights is the fruit of the adherence to welfarist consequentialism. In this framework, only well-being is intrinsically valuable; values such as freedom, equality or safety, for example, may be acknowledged but only as derivative values. Textbooks are filled with instances of conflict between these values and utilitarianism. Modern welfare economics has endorsed a mild form of utilitarianism. It relies exclusively on the Pareto criterion. However, despite this departure from utilitarianism it is well known from Sen's theorem that such conflicts still arise<sup>26</sup>. Environmental economics is a setting prone to give rise to such conflicts because of widespread externalities. Hammond has offered a straightforward illustration of this issue. He argues that 'one may feel in certain circumstances that a landowner has the right to cut down all trees on his land in order to grow crops, construct a house or a tennis court or a swimming pool, or whatever' (Hammond 1982, p. 89). Yet, he notes that 'if everybody cuts down all their trees, this may create problems of soil erosion and landslides as well as having adverse effects on the local climate' and that 'it would be Pareto superior to institute some tree conservation measures in the community as a whole, by taxing any individual landowner for each tree he fell beyond a certain acceptable level which maintains the stock of tree constant' (ibid.). Such a scheme would be supported by most mainstream economists. However, libertarians would contend that it infringes the landowner's property rights. Libertarian thinkers, such as Narveson (1998), believe that 'everyone has a general right to liberty' (Narveson 1998, p. 3); that is, 'to the absence of imposed costs at the hands of others' (ibid., p. 4). According to this view, property rights are deontological constraints that must be respected by the regulator. Hammond (1982) endorses this

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<sup>25</sup>I am well aware that social norms are not necessarily efficient nor beneficial.

<sup>26</sup>See Sen (1970). Sen's theorem shows that a tension exists between individual rights and the very weak version of welfarism embedded in the weak Pareto criterion. Under Sen's formulation, an individual's right entails 'decisiveness'. An individual  $i$  enjoys rights for at least one pair of distinct alternatives  $(x; y)$  which differ only with respect to some aspects of  $i$ 's personal life, if  $i$  strictly prefers  $x$  to  $y$  then  $y$  cannot be socially chosen from an issue that contains  $x$ . Under this formulation of individual rights, society should respect the choices of the individual as long as these choices are private (that is, as long as the choice has no consequence on other individuals' well-being). This first formulation is usually referred to as the social choice approach to rights. Sen's theorem asserts that no social decision rule with unrestricted domain can simultaneously respect rights as previously defined and satisfy the weak Pareto criterion. In recent years, the appropriateness of Sen's modelling of individual rights has been challenged and new routes have been advanced, in particular the Game Form Approach to individual rights; see Gaertner et al. (1992), Deb et al. (1997), Deb (1994), Pattanaik and Suzumura (1996), Sen (1992), Sen (1995), Sen (1999). However, it is widely acknowledged that this tension 'persists under virtually every plausible concept of individual rights' (Gaertner, Pattanaik and Suzumura 1992).

attitude. He contends that

in such a case, ... one simply has to recognise that there is an extra constraint on the social welfare maximising choices, arising because conservation measures are not really possible. The chosen social outcome is only Pareto efficient subject to such a constraint: conservation measures would produce a superior outcome but are unfeasible. The social outcome is constrained by the requirement that it must not infringe these rights. (Hammond 1982, p. 89)

Our concern for rights, thus, should lead us to restrict the range of policies that we regard as conceivable. This first difficulty has its origin in consequentialism. Now, I shall point to a second problem that stems from the symmetric (or impartial) treatment that agents enjoy under traditional welfare economics<sup>27</sup>. Consider a world of complete information and costless bargaining. That particular world is inhabited by two economic agents, P and V. P's activities result in an externality that affects V's well-being. In such a situation, the Coase Theorem asserts that the two agents will strike a mutually advantageous (Pareto efficient) bargain for the level of external activity. That is to say, agent P will have to pay a certain amount of money to V in exchange of the right to pollute. However, we can dissent from this understanding of the situation. One could argue that the polluter's interests, P, and his victim's interest, V, should enjoy different moral status. For example, we could entitle the agent V to the right to live in an unpolluted environment. As a result, Society would be required to protect by all available means agent V from P's nuisances. This example illustrates a potentially serious defect of utilitarianism as a guide to policy makers. Utilitarianism may induce us to illegitimately disregard the difference in moral status that the victim enjoys from an ethical standpoint.

## 5.2 Communities, Selfish Incentives and the Environment

As we have seen earlier, a utilitarian government or regulator depends on the selfishness of its citizens. And the view that selfishness is the answer to environmental issues is commonplace<sup>28</sup>. However, Mann and Plummer (1995) challenge this view. They argue that conservation should be promoted in ways more compatible with local (American) values and culture. This assertion might be puzzling for a classical economist. Why should the conservation measures adopted differ? In order to substantiate this question, and to answer it, economists must give up their prejudices and confront the real world. Then, he or she will realise that non-utilitarian motivations are often accountable for our behaviour. Consider the following example provided to illustrate this point. The state of Wisconsin has created an Endangered Species Trust Fund which covers seven species on the federal endangered list. Under this programme, 'landowners agree to a non-binding protection plan, and are rewarded with a picture of the species, a certificate of appreciation, ongoing management help, and, most important, the belief that they are voluntarily doing the right thing' (Mann and Plummer 1995). From an economic standpoint, this policy has not much merit. It is doubtful that valueless pictures, certificates of appreciation and so on will substantially change people's incentives. However, this programme is a success. Actually, it is true that this programme is not intended 'to deter big development plans but it serves its own, more restricted, purposes' (ibid.). The success of this programme indicates that people assign a non-utilitarian value to such items which is not accounted for by economists' evaluations. Therefore, we should rely on an extended conception of human motivation. Drawing on both

<sup>27</sup>This example is borrowed from Goodstein (1995).

<sup>28</sup>See, for example, Ridley and Low's article: 'Can Selfishness Save the Environment?' (1993).

historical and contemporary experimental evidence, Gintis and Romer (1998, p. 1) propose a broader account of human motives and conduct. They assert that

people are motivated by duty and obligation as well as by utility, they have preferences concerning the well-being of others (they are both altruistic and vengeful), they are concerned with issues of equity and dignity in interpersonal relations, their preferences are determined in part by the character of the economic institutions within which they operate, and their well-being depends on the quality of their social relations and the extent to which they have developed their personal capacities, not only the quantity of goods and services at their disposal.

Consequently, Bowles and Gintis (1998) invite us to consider a new persona christened *Homo reciprocans*. *Homo reciprocans* differs from *Homo economicus* in that it takes into account the ambivalence of human morality. His or her behaviour follows precepts of the Strong Reciprocity Norm. Bowles and Gintis (1998) define Strong Reciprocity as a 'propensity to co-operate and share with others similarly disposed, even at personal cost, and a willingness to punish those that violate co-operative and social norms, even when punishing is personally costly'. Strong reciprocity motives differ from weak ones (for example, those which underlie tit-for-tat strategies) in that co-operative or punishing behaviours are not motivated by the prospect of subsequent repayments. They are, in a way, altruistic. The adoption of this or another extended conception of human nature which acknowledges altruistic as well as other motives should lead us to challenge our traditional views concerning which policies are good. Indeed, the substitution of *Homo economicus* by *Homo reciprocans* reflects a new understanding of people's needs and aspirations. As a result, and because of our liberal belief that governments or regulators ought to serve their subjects, we should rephrase the problem of institutional design as follows:

The problem of institutional design is not as the classical economists thought, that selfish individuals be induced to interact in ways producing desirable aggregate outcomes, but rather that a mix of motives – selfish, reciprocal, altruistic and spiteful – interact in ways that prevent the selfish from exploiting the generous and hence unravelling co-operation when it is beneficial. (Bowles and Gintis 1998)

This view of institutional design agrees with the contractualist and libertarian conceptions of society as defined by Sugden (1993). Contrary to the utilitarian conception of society, it does not involve the existence of a transcendental value that individuals must pursue even if it is contrary to what they believe is good for themselves. Rather, this understanding of society as a system of co-operation emphasises that individuals are their own source of value. Thus the problem of institutional design amounts to inducing people to interact in ways that are not detrimental to social ties and co-operation. This account requires three remarks: First, it should be noted that this role is usually partly played by social norms<sup>29</sup>. Social norms contribute to the overall regulation of society. They prohibit behaviours detrimental to the community and reward altruistic and co-operative behaviours. Moreover, they provide reasons for behaviours that are not exclusively outcome-oriented<sup>30</sup>. Thus a conflict may arise between utilitarian-based policies and social norms. Economists should acknowledge this point. Such conflicts may render their policies

<sup>29</sup>Elster (1989) provides a non-exhaustive account of social norms, it includes: consumption norms, norms against behaviour 'contrary to nature', norms regulating the use of money, norms of reciprocity, norms of retribution, works norms, norms of co-operation and norms of distribution.

<sup>30</sup>Examples of these norms with regards to co-operation include the previously cited norm of Strong Reciprocity introduced by Bowles and Gintis (1998) but also related norms such as 'everyday Kantism', 'co-operate if and only if it would be better for all if all co-operated than if nobody did' or 'norm of fairness', 'co-operate if and only if most other people co-operate' (Elster 1989).

at best ineffective and certainly counterproductive<sup>31</sup>. Second, environmental issues would certainly be better understood as collective choice problems; that is to say, as problems essentially about advancing common ways of understanding what the pertinent issues are about (Vatn and Bromley 1995). Since civil society is the place where ideas regarding what is valuable are formed (see Sen 1995, pp. 16–17), it would seem natural to rely on it in order to advance solutions to environmental issues, especially at the local level. For instance, co-operative management of natural resources may be effective in inducing people to understand the issue at hand and to find appropriate solutions. Finally, it may be acknowledged that preferences and institutions affect one another. As Gintis and Romer (1998) put it: ‘Preferences determine the kind of institutions that are viable, and institutions influence the kinds of preferences that people develop and express.’ There is little indisputable evidence to support this statement; however, it is highly plausible. Thus we should treat preferences as endogenous data. This last point underlies Puttman’s theory of ‘the erosion of social capital’ and several other ‘communitarian’<sup>32</sup> critics of liberalism: ‘to the extent that economic policies weaken communities, they weaken personal development as well’ (Gintis and Romer 1998, my emphasis).

## 6 CONCLUSION

Economics relies on a uni-dimensional evaluative system, utilitarianism. This evaluative system assesses consequential states of affairs along a single dimension, utility. Therefore, it requires that we evaluate the various attributes of a social state in utility terms. Thus, freedom, safety, community links and so on are valuable only insofar as they contribute to a greater production of utility; their value is derivative. This view conflicts with our understanding of what is valuable in everyday life. We usually regard our ability to choose our health and our social relations as intrinsically valuable. For that reason, utilitarianism may be the only predictor of our well-being. However, in practice, economic scholars tend to measure our well-being from our consumption of goods and services and disregard our manifold values. As a result they systematically undervalue co-operative and participative strategies that appeal to the morality of individuals. By contrast, they advocate a disguised form of command and control policies, MBE policies, which rely on individuals’ selfishness. I have emphasised that in practice these policies may conflict with prevailing social conventions. Moreover, I have stressed that these policies may weaken social ties and be detrimental to social communities. Co-operative and participative policies are intrinsically valuable. Economic scholars usually miss this point. Therefore, in order to acknowledge their intrinsic value, the traditional framework of welfare economics should be extended to take into account the value of procedures along with that of outcomes. Such an extension has already been advocated by Moulin (1997) and Suzumura (1999) with regard to freedom and individual rights. It has also been the purpose of Rawl’s Theory of Justice. I believe that it should be done with regards to the values embedded in co-operation and participation. Sen’s theory of ‘functionings’ and ‘capabilities’ is perhaps a first step in this direction.

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<sup>31</sup>See Bowles and Gintis (1998). They argue that egalitarian welfare policies offend people’s ‘deeply held notions of fairness’.

<sup>32</sup>The communitarian critique of liberalism, and the ensuing debate, has been of great moment in recent political philosophy. The influence of communitarian ideas now exceeds the boundaries of philosophy and is easily perceived in sociology and economics, where it gave rise to the so-called ‘new socio-economics’. I suspect that in the course of the transposition of communitarian philosophy into economic theory a dose of anti-pluralism and conservatism has been introduced. I regret these additions that, in my view, render this new paradigm less attractive.

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