



## Methodological and Ideological Options

## Beyond Rationality, Towards Reasonableness: Enriching the Theoretical Foundation of Deliberative Monetary Valuation



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## ABSTRACT

Economic valuation is often deemed an important source of information for land-use decisions. Stated preference (SP) methods are a particularly potent class of economic valuation methods, but they are also particularly controversial. In response to accumulating criticism of SP, deliberative monetary valuation (DMV) has been proposed as an alternative approach and has gained considerable attention in recent years. However, being a combination of elements from two theories – neoclassical welfare economics and theory of deliberative democracy – it lacks a convincing, consistent theoretical foundation. In our paper, we propose some clarifying adjustments regarding rationality assumptions and aggregation issues by drawing upon the work of Amartya Sen. We find that many of his ideas lead to a harmonisation of DMV's theoretical foundations, e.g. meta-rankings of preferences, impartial spectator and the plurality of impartial reasons.

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## 1. Introduction and Aims

Despite growing interest in monetary estimates for all sorts of land-use changes, the most popular valuation methods for non-market costs and benefits<sup>1</sup> – stated preference methods – yet exhibit considerable deficiencies. The critique evolves from two avenues of concern (Lo and Spash, 2013): methodological issues relating to the validity of valuation outcomes (i.e. respondents' willingness-to-pay), and political-ethical issues pointing at the unsatisfactory ethical foundations of the rationality assumptions underlying economic valuation. The methodological concerns primarily relate to the economic assumptions that respondents of stated preference (SP) surveys have predefined preferences for any environmental change and are able to translate these into monetary amounts in a one-shot survey (Kahneman et al., 1999; Lienhoop et al., 2015; Spash, 2007). It is argued that they usually do not have predefined preferences: As a result, instead of constructing their preferences, respondents may be influenced by decision heuristics and framing effects, thus providing an inaccurate picture of how much they value the environmental change at stake (Tversky and Kahneman, 1974). Political-ethical concerns are twofold. One relates to the so-called consumer-citizen dichotomy (see Ami et al., 2014; Sagoff, 1988; Soma and Vatn, 2014). According to welfare economic theory, preferences elicited in SP studies are based on personal needs and interests, that is, respondents are supposed to maximise their individual welfare (known as *consumer* preferences). Critics claim that this

assumption discourages respondents from taking account of the needs of society and future generations (and thus to act as *citizens*), and regard consumer preferences to be contradictory to the public nature of many environmental goods (Niemeyer and Spash, 2001; Vatn, 2009).<sup>2</sup> While consumer preferences are expressed in social isolation, public goods are used and shared by many, are indivisible among individuals, and may also affect future generations. Hence, according to critics, it is indispensable for public policy-making that people go beyond their personal needs and consider what might be good for society, the environment, and future generations (Dietz et al., 2009; Niemeyer, 2004; Sagoff, 1988). Moreover, contrary to theoretical assumptions, empirical research shows that respondents in SP studies often 'fail' to focus solely on their self-interest and do indeed take other aspects into consideration (Spash et al., 2009; Kahneman et al., 1999). The second political-ethical concern relates to the fact that SP methods force respondents to express their preferences, irrespective of their motivational source, in one number. Thus, information on arguments for or against policies is not revealed, and incommensurabilities are glossed over. However, in order to reach good decisions about projects or policies it is important to understand the reasons why certain stakeholder groups advocate or oppose a particular environmental change (Sen, 1995). SP applications only supply, if at all, very restricted information about respondents' motives, although such additional information would give policy-makers

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E-mail address: [bartosz.bartkowski@ufz.de](mailto:bartosz.bartkowski@ufz.de) (B. Bartkowski).<sup>1</sup> See, e.g. de Groot et al. (2012), especially Table 1.<sup>2</sup> The consumer-citizen dichotomy can be interpreted as a clash between consequentialist (including utilitarian) reasoning, which focuses on the consequences of actions, and deontological (e.g. Kantian) reasoning, which frames ethical problems in terms of duties and rights. See Spash (2006).

important insights into the reasons why a particular outcome is preferred (cf. Söderholm, 2001).

The political–ethical concerns regarding SP methods are frequently voiced by advocates of deliberative institutions, which form a completely different approach to evaluating public policies and have a different theoretical underpinning. In deliberative institutions participants are involved as citizens with the task to reach a mutual understanding and common solution about an environmental change through group interaction and exchange of arguments (Vatn, 2009). Furthermore, the opportunity to discuss and sufficient time to think in deliberative institutions are supposed to enable participants to discover and affirm their preferences on the environmental issue at stake (cf. Braga and Starmer, 2005).

In the past years, deliberative institutions gained increasing interest in the field of economic valuation because of their potential to address the limitations of SP methods (Spash, 2007). From this, deliberative monetary valuation (DMV), a hybrid of SP methods and deliberative institutions, evolved.<sup>3</sup> From a theoretical perspective, two approaches to DMV can be distinguished, depending on their closeness to deliberative democracy theory vs. neoclassical economics. On the one hand, there is what Orchard-Webb et al. (2016) call Deliberative Democratic Monetary Valuation, in which usually the goal is to reach mutual consent in the form of social WTP, i.e. collectively elicited monetary values (see also Brown et al., 1995; Kenter et al., 2011; Kenyon and Nevin, 2001; Lo, 2013; Wilson and Howarth, 2002). On the other hand, there is the approach leaning more heavily towards conventional SP methods (elicitation of individual preferences and aggregation of individual WTP), but incorporates important elements of deliberative institutions, especially preference learning through discussion and time to think. While still relying on questionnaire-based SP surveys, the latter approach includes deliberation as an important component in the process of preference formation and elicitation (e.g. Álvarez-Farizo and Hanley, 2006; Christie et al., 2006; Lienhoop and Völker, 2016; MacMillan et al., 2006, 2002). Most empirical studies belong to the second category (Bunse et al., 2015).

There exist practical arguments in favour of DMV. For instance, a number of studies investigated the role of discussion in DMV either by comparing valuation results prior and after discussion or by comparing DMV with standard SP approaches. Many of these studies show that deliberation leads to an improved model fit in terms of the influence of independent variables on willingness-to-pay and robustness (Álvarez-Farizo and Hanley, 2006; Christie et al., 2006; Christie and Rayment, 2012; Lienhoop and MacMillan, 2007a; MacMillan et al., 2006; Robinson et al., 2008). In comparison to conventional SP approaches, there is evidence that DMV generates fewer non-responses to the WTP question (Szabó, 2011) and that respondents regard the exercise less demanding and confusing and are more certain about their WTP bids (Lienhoop and MacMillan, 2007b; MacMillan et al., 2006). Most studies comparing WTP or choices before and after discussion found a change in WTP or implicit prices (e.g. Lienhoop and MacMillan, 2007a; Robinson et al., 2008), indicating that respondents refine their preferences. A recent study found that respondents continuously learn about their preferences in a setting involving group discussion and a weeklong interval to think about the environmental change under investigation (Lienhoop and Völker, 2016). At the same time, DMV is vulnerable to exclusion and power dynamics within discussion groups (Vargas et al., 2017, 2016; Völker and Lienhoop, 2016).

While existing research made important contributions to understanding the role of DMV in terms of valuation outcomes, the theoretical underpinnings of this novel approach remain under-investigated (Bunse et al., 2015; Kenter et al., 2016). Particularly, given the tension between theoretical papers, which exhibit high scepticism towards

conventional economic valuation and more closeness to deliberative democracy theory, and empirical studies, which usually lean more towards mainstream economics, it is not clear what DMV actually stands for. The attempt to combine ‘the best of both worlds’ (Spash, 2007, p. 691) entails that two contrasting theories are entangled in one method (see Fig. 1). This has attracted criticism from both economists and advocates of deliberative democracy (Lo, 2013; Lo and Spash, 2013; Spash, 2007). In this paper we take a new perspective on this criticism and suggest a way to bridge the gap between the two seemingly incompatible theories underlying DMV. To this end we carefully explore Amartya Sen’s theory of rationality (e.g. Sen, 2010) and identify relevant ideas that help harmonise ‘the best of both worlds,’ including the identification of elements of both worlds that are worth keeping. Thus we hope to provide a firmer theoretical footing for DMV than it has now. Our main focus is on the issue of rationality assumptions behind DMV, but we also discuss the similarly unclear question of how individual preferences of DMV participants are to be aggregated.

The remainder of the paper is organised as follows: Section 2 provides an overview about the theoretical foundations of DMV, with a focus on (economic and communicative) rationality assumptions. Section 3 presents insights from Amartya Sen’s work that are potentially relevant for DMV, and Section 4 draws implications for DMV from the previously discussed tenets of Sen’s work. The paper ends with a conclusion (Section 5).

## 2. Theoretical Assumptions Underlying DMV: Between Neoclassical Economics and Deliberative Democracy

Being a hybrid between SP methods and deliberative institutions, DMV is based on two contrasting theories. Furthermore, as mentioned above, different things have been called DMV, which can be located in different areas of the spectrum between deliberative democracy (with its typical institutions, such as citizens’ juries) and neoclassical welfare economics (SP methods). In this section we elaborate on these differences, with a focus on rationality assumptions and aggregation of individual preferences, and identify specific questions that must be answered to enrich DMV’s theoretical foundation and contribute to more consistency within this research field.

A respondent participating in a SP survey is assumed to act as *homo oeconomicus* with the following typical characteristics: (i) she holds full information about the environmental good or service at stake; (ii) she is self-interested (society’s and future generations’ interests are hardly regarded); and, consequently, (iii) she holds predefined preferences (Spash, 2007). Conversely, deliberative institutions are based on deliberative democracy theory involving the assumption of communicative rationality, i.e. open and reasoned exchange of arguments with the goal of reaching an agreement. Thus, a respondent participating in a deliberative institution is assumed to (i) be a reflexive citizen; (ii) consider society’s and future generations’ interests; and (iii) socially construct her preferences (Vatn, 2005). Vatn (2009) describes the difference

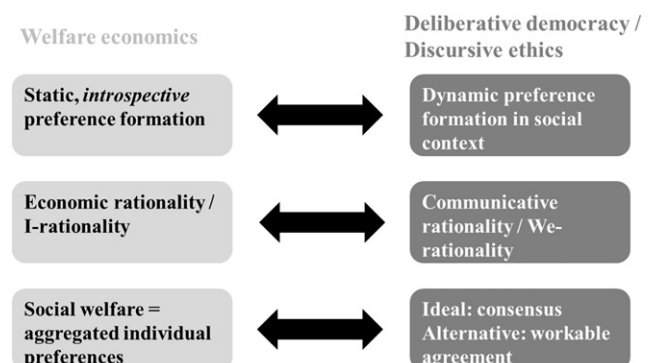


Fig. 1. The two contrasting rationality assumptions of DMV.

<sup>3</sup> Examples of deliberative institutions are: Citizens’ jury, Consensus conference, Focus groups. Exemplary deliberative monetary valuation methods are: Market Stall, Valuation Workshop, Value Jury.

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