



## Commentary

## Towards a fair, constructive and consistent criticism of all valuation languages: Comment on Kallis et al. (2013)

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## ABSTRACT

We provide critical notes to the paper by Kallis et al. (2013) on monetary valuation. We evaluate the four criteria they propose for assessing valuation studies. We argue that no clear distinction is made between monetary valuation and pricing instruments. The selected criteria are more relevant to assessing policy than monetary valuation. The examples provided are not representative of the diversity of valuation studies encountered in the literature. Moreover, no clear examples are provided of where valuation and associated cost–benefit analysis of environmental policy go wrong. We plea for a more fair, constructive and consistent criticism of all “valuation languages” and offer relevant issues for consideration.

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## 1. Introduction

Valuation of nature in monetary terms is controversial and has often been criticized. One reason is that different disciplines express distinct ideas on the desirability of monetary valuation as an input for decision-making on environmental policy. In a recent paper, Kallis et al. (2013) introduce the main views of political ecology (PE) on monetary valuation of nature. The authors present a set of normative criteria aiming to support researchers and environmentalists in evaluating when to make use of monetary valuation methods for policy-making purposes and when not. The authors offer a practical guide based on answers to four yes/no questions conveying the normative criteria to be fulfilled or not. While we appreciate the idea to critically judge placing monetary values on nature, we identify two main problems with the way this issue has been dealt with in their article. Firstly, we believe that both the proposed criteria and selected examples are not very representative and relevant for judging the necessity and usefulness of valuation and thus can only be of limited help to researchers and practitioners. Secondly, in much of their discussion Kallis et al. do not clearly and consistently separate between monetary valuation and pricing

instruments (a subclass of environmental policy instruments). Although the central question raised in Kallis et al. is “when and how to value with money?”, the guiding principles they provide are more suitable for assessing policy instruments than monetary valuation. While we acknowledge the fact that monetary valuation can convey information for the design of certain policy instruments (e.g., environmental taxes), the approach of Kallis et al. confuses rather than helps a good debate about the merits of monetary valuation. Moreover, if their aim is to propose how to value with money, one would expect a debate regarding theoretical and methodological shortcomings in deriving monetary values (whether using revealed or stated preference techniques) or regarding the application and use of these values (as in cost–benefit analysis, CBA). Both issues are, however, entirely missing from the article. We further will note that monetary valuation is approached in a much more critical way than other “valuation languages”, by Kallis et al. as well as by ecological economics more broadly. Hereafter we provide detailed arguments to support these statements.

## 2. Irrelevance of the Proposed Criteria for Assessing Monetary Valuation

In order to judge the suitability of monetary valuation, Kallis et al. propose four normative criteria, namely “environmental

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improvement”,<sup>1</sup> “equality”, “value pluralism”, and “accumulation by dispossession/neo-liberalism”. While the former two are reminiscent of standard criteria for evaluating policy instruments suggested in textbooks on environmental economics – next to efficiency or cost-effectiveness – “value pluralism” and “accumulation by dispossession” seem to be mainly inspired by the PE literature. The use of policy evaluation criteria illustrates the confusion in the article between monetary valuation and environmental policy (notably pricing instruments). For example, the authors note on page 99: “monetary valuation of environmental goods and services (e.g., wetland banking, carbon trading and biodiversity offsets)”. The examples in between brackets are clearly policies, however, and not valuation categories, approaches or methods. Although monetary valuation can inform the design of policies, which is an explicit aim of many (but certainly not all) valuation exercises, valuation and policy are very different things which need to be clearly separated and discussed to avoid confusion about shortcomings of valuation and its application potential and range. Therefore, the criteria for assessing the usefulness of valuation and policy are not expected to be the same. While the four criteria proposed in Kallis et al. might be suitable for the selection and design of pricing instruments, we think that none of the criteria is really very useful in deciding whether to perform a monetary valuation or not. To clarify this, we consider each criterion in more detail below.

### 2.1. Criterion 1: Environmental Improvement

The first criterion asks if monetary valuation will improve environmental conditions. It is fair to assume that anyone who engages in monetary valuation of environmental changes or policies aspires to improve environmental quality or protection. In practice, however, the person carrying out the valuation exercise is unlikely to know with certainty in advance the outcome of the decision process for which the monetary values (may) serve(s) as an input in the future. While monetary valuation can inform about whether a policy instrument is deemed desirable, it is not very clear how it could influence policy effectiveness. Effectiveness will depend mainly on how the instrument is designed and implemented and hence it might serve as a relevant criterion for assessing the selection and design of pricing instruments. Therefore, the first criterion of Kallis et al. will be irrelevant to judge valuation studies. Moreover, as most if not all environmental valuation studies, almost by definition, address some scenario of environmental improvement (or avoiding environmental deterioration), this criterion would not be very restrictive or selective in practice anyway.

It is important to realize that issues other than valuation are much more important for judging the effectiveness of policies. One example is rebound of well-intended strategies or policies, which means that all kinds of indirect, often unforeseen results, lower the direct intended effect of a policy. This has generated much literature, which suggests that pricing may be the best solution to minimizing rebound leakages (van den Bergh, 2011). Another example is a behavioral issue that has received some attention in recent years, namely crowding-out of intrinsic motivations due to pricing or other policy instruments (e.g., Frey and Jegen, 2001; Gneezy and Rustichini, 2000). The possibility of crowding-out does not mean, however, that one should immediately reject the respective instrument. Instead, the net effect of incentives through regulation and crowding-out should be compared with the effects that result in case no regulation or other policy instruments are implemented. Pricing is still likely to perform well as the basic price incentive effect tends to dominate the crowding-out-of-motivation effect (Fehr and Falk, 2002).

### 2.2. Criterion 2: Equality

The second criterion relates to the issue of equality. Like the previous criterion, this one is more appropriate to judge or steer policy design rather than monetary valuation.

A basic question here is whether valuation pays insufficient attention to equality. We think that it is not correct to suggest that this is generally the case. For instance, respondents in a survey may take their feelings about their position in an income distribution into account in their value statements. Moreover, researchers may correct for income effects by normalizing values or using respondents' income as an explanatory or moderating variable in linking monetary values to their socio-economic characteristics (in estimating so-called value functions).

The distributional aspects of environmental regulation have received serious attention in environmental policy studies (e.g., Serret and Johnstone, 2006; Fullerton, 2009; Sterner, 2011).<sup>2</sup> To accommodate distributional concerns, one can, for example, implement block-pricing (such as exists for water and energy consumption) to assure that basic needs can be fulfilled against reasonable costs. This illustrates that pricing does not necessarily involve inequity effects – something which is suggested by Kallis et al. without a rigorous argumentation or representative examples. Moreover, any type of strict environmental regulation – including standards, quotas and non-tradable permits – can have undesirable distributional effects without appropriate design or countervailing measures. We should not simplify our policy evaluation: (re)distribution effects are not a unique or distinctive feature of regulation by prices; all serious, effective environmental regulations will involve distributional effects.

Furthermore, it seems unreasonable to ask of environmental valuation (as well as of environmental policy), which is intended to help in solving environmental problems in the first place and to also “reduce inequalities and redistributive power” (Kallis et al., 2013, p.100). For environmental policy evaluation it would be fair to require that inequality is not increased. Evidently, environmental policy cannot be expected to circumvent or solve all existing inequalities. However, in some cases environmental policies can contribute to reducing inequality. For example, given that many poor people in the world tend to live in climate risk-prone areas, serious climate policy would mean avoiding increased inequality due to climate change.

Finally, given that monetary value estimates often serve as inputs to a CBA of a policy instrument or scenario which make (implicit) assumptions about how to address distribution of outcomes, this type of application deserves particular attention. It was not discussed by Kallis et al., which we feel is an omission. Addressing CBA in this context of “valuation for policy” allows for a more nuanced perspective on the relationship between monetary values, policy and equity or fairness. CBA separates efficiency from equity, which is a simplification since strictly seen distribution affects individual values and utilities (through relative income/welfare, status seeking, inequity aversion, etc.), and thus efficiency. This suggests that CBA should be treated with care in the context of considerable income inequality. One can, nevertheless, account for the fact that the marginal utility of money is falling with income by applying distributional weights in CBA – implying a lower weight for richer people or regions. This procedure was followed, for example, in the Stern Review on evaluating the net benefits of climate policy (Stern, 2007).

<sup>2</sup> Fullerton (2011) examines the regressive character (i.e. placing a disproportionate burden on the poor) of six different types of distributional effects of a carbon permit system: (1) higher prices of carbon-intensive products, (2) changes in relative returns to factors like labor, capital, and resources, (3) allocation of scarcity rents from a restricted number of permits, (4) distribution of the benefits from improvements in environmental quality, (5) temporary effects during the transition, and (6) capitalization of all those effects into prices of land, corporate stock, or house values. This illustrates that distribution is a multidimensional issue, making this criteria much more difficult to assess than is done in Kallis et al.

<sup>1</sup> More commonly known as “(environmental) effectiveness”.

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