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Commentary

The place of the capability approach within sustainability economics

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ABSTRACT

The connections between the capability approach and sustainability economics have been explored recently. I argue here that for engaging in a more substantive study of those connections, we must first understand the place of the capability approach within the history of economic thought, as a second stage of the revival of classical surplus theory. Once this is clear, we can then use the capability approach in order to specify concepts such as well-being, surplus, scarcity, and sustainable reproduction, which are essential for the development of sustainability economics.

1. Introduction

The capability approach has recently been proposed as an important ingredient for the development of sustainability economics — see, for example, Ballet et al. (2011), Martins (2011), Scerri (2012), Birkin and Polesie (2013), Ballet et al. (2013). But for engaging in a more substantive study of those connections, we must also understand the place of the capability approach within the history of economic thought, as a second stage of the revival of classical surplus theory. Once this is clear, we can then use the capability approach in order to specify concepts such as well-being, surplus, scarcity, and sustainable reproduction, which are essential for the development of sustainability economics.

2. Capabilities, Utility, Surplus and Scarcity

The conception of human well-being developed within the capability approach contrasts with mainstream (neoclassical) economics in important ways. Mainstream (neoclassical) economics characterizes human well-being in terms of subjective preferences, or subjective utility. The capability approach, in contrast, does not focus on subjective preferences when explaining human well-being, but rather on objective *functionings*, which Sen (1999) and Nussbaum (2000) define as what a human being is, or does.

Furthermore, while mainstream (neoclassical) economics typically focuses only on achieved utility, Sen and Nussbaim focus on freedom to achieve instead. Freedom is essential because, as Sidgwick (1874) pointed out, the preferences of human beings may change in the future, and so a choice that limits the options of future generations based on present preferences may lead to a lower level of satisfaction in the future — see Martins (2011, p. 4) and Ballet et al. (2013).

Thus, Sen and Nussbaum focus not only on the actual functionings that are achieved, but also on the *potential* functionings, that *can* be achieved, which are termed as human *capabilities*. Sen (1999) defines well-being achievement in terms of *actual* functionings, and well-being freedom in terms of *potential* functionings, or capabilities.

As Nussbaum (2012) notes, Sen's initial formulation of the capability approach was much concerned with *basic* capabilities, that is, the level of capabilities that is essential for achieving a certain threshold that allows for an humane standard of living. Nussbaum (2000) tried to substantiate this idea, and developed a concrete list of basic capabilities, which are non-negotiable, since they must be provided for every human being.

In mainstream (neoclassical) economics, in contrast, the emphasis is not on the achievement of a certain level of basic capabilities, but rather on the maximization of subjective utility. In fact, a central proposition of mainstream microeconomic theory is that consumers are never satisfied, and always want more. This central proposition leads to the conclusion that all goods are scarce, since human beings would always want more goods. Thus, every student of mainstream economics learns Robbins (1935[1932]) definition of economics, according to which economics is the study of the allocation of scarce resources which have alternative uses.

Robbins' conception of economics, which became dominant, stands in stark contrast with the conception of classical economists like Adam Smith or David Ricardo. As Sen (1999) explains, the conception of the human agent as a relentless utility maximizer advanced in mainstream

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(neoclassical) economics is not only highly unrealistic, as it also misrepresents the classical conception, according to which the human agent is a creature of habits, whose utility level gets adapted to a given social situation, and to a given (customary) standard of living.

Also, the mainstream (neoclassical) emphasis on scarcity stands in contrast to the classical emphasis on the social surplus. According to Smith and Ricardo, political economy is the study of the reproduction and allocation of the social surplus, where the social surplus is the part of production which is not necessary for the reproduction of the existing economic system.

Effectively, a central distinction that emerges between classical political economy and mainstream (neoclassical) economics is that the central analytical concept of classical political economy is the social *surplus*, while the central analytical concept of mainstream (neoclassical) economics is *scarcity*. Classical political economy was a surplus theory, that is, a theory centered on the (circular) reproduction and allocation of the social surplus. Mainstream (neoclassical) economics, in contrast, is the study of the allocation of scarce resources according to our subjective preferences.

In order to understand what the social surplus is, note that production can be divided into a part which is necessary for the reproduction of the existing economic system (such as the means of production and the means of subsistence which replace those that were used in the production process), and another part which is not necessary for the reproduction of the existing economic system (such as luxury goods, or further means of production used in order to expand production beyond the existing economic system). The social surplus is constituted by the latter part of production, which when used in luxury goods does not contribute to further growth, and when used (through investment) in further means of production (i.e., in productive activities) leads to growth, that is, to an expansion of the economy — see Walsh (2000, 2003).

The classical authors had a circular conception of the economy, which goes back to the French Physiocrats, led by François Quesnay. Sraffa (1960: 93), who developed the classical conception, notes that "[i]t is of course in Quesnay's *Tableau Economique* that is found the original picture of the system of production and consumption as a circular process." Sraffa (1960: 93) contrasts this circular (classical) conception with mainstream (neoclassical) economics, in which economics studies a one-way avenue, from resources to final consumption.

This circular process can lead to expansion, contraction, or just continue at the same scale of reproduction, depending on whether the social surplus is used in productive activities or spent on luxury goods. In the classical conception, the value of each commodity tends to its cost of (re)production within this circular process, which is measured in terms of human labor. In the mainstream (neoclassical) conception, in contrast, value depends upon marginal utility, which in turn depends upon scarcity.

At first sight, it could seem that a theory centered on scarcity, such as mainstream (neoclassical) economics, would be more appropriate for the study of sustainability. But the opposite is the case. For mainstream (neoclassical) economics does not really address the key problem posed by the scarcity of natural resources. Quite the contrary, mainstream (neoclassical) economics leads to the *trivialization* of the notion of scarcity, by positing that because human preferences are never satisfied, all goods are scarce, since there is no finite limit that brings the satisfaction of human desires. By trivializing the notion of scarcity, arguing that everything is scarce, rather than focusing on the scarcity of natural resources, mainstream (neoclassical) economists divert our attention away from the study of the natural resources which are actually scarce, rather than contributing to a study of sustainable processes of socio-economic reproduction.

Classical economists, in contrast, focused specifically on the scarcity of natural resources such as land, which leads to the existence of a rent, while noting that scarcity does not exist in other respects (for example, human labor is typically available, unless we happen to be in a situation of full employment). Ricardo (1821: 6) notes that "[t]here are some commodities, the value of which is determined by their scarcity alone," such as "rare statues and pictures, scarce books and coins, wines of a particular quality." But Ricardo (1821: 6) adds that "[t]hese commodities, however, form a very small part of the mass of commodities daily exchanged in the market."

According to Ricardo (1821: 6), '[b]y far the greatest part of those goods which are the objects of desire, are procured by labor, and they may be multiplied, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labor necessary to obtain them.' Ricardo is presupposing an economy where there is no full employment, and labor is available for further production, within a circular process of reproduction that must be sustainable.

3. Scarcity and Rent

Walras criticized Ricardo's perspective. While Ricardo presupposes a case where labor is available for further production (such as a case where unemployment, disguised or not, exists), Walras presupposes a case where commodities cannot be further multiplied (such as a case of full employment). For Walras, scarcity is the general case, while for Ricardo, scarcity is the case only for some (rare) goods, and for (natural) resources (which generate a rent). If scarcity is the general case, as Walras believed, the quantity of a given product is insufficient to satisfy demand, and it is the selling price, determined through supply and demand, which influences the cost of production, and not the other way around, as Ricardo argued.

Marshall (1920) developed the supply and demand approach to value, explaining the determination of prices and quantities in terms of supply and demand curves. For the classical authors, in contrast (and contrarily to Marshall's interpretation of the classical authors), there were no supply and demand curves. In the classical conception, prices simply gravitate around the cost of production, that is, the natural price, where gravitation refers to a vague process that is not represented by supply and demand curves — see Garegnani (1998).

Supply and demand curves enable Marshall to define the consumer surplus and the producer surplus in geometrical terms, using those curves, and resorting to notions like marginal utility (which leads to the demand curve) and marginal cost (which leads to the supply curve). The price at which commodities are exchanged depends upon the marginal utility of the last (marginal) commodity exchanged, which is lower than the marginal utility of the other commodities. But since all commodities were bought at this lower price, a consumer's surplus arises, due to the difference between the marginal utility of each commodity, and the marginal utility of the last commodity.

Likewise, the price at which commodities are exchanged depends upon the marginal cost of the last commodity, which is higher than the marginal cost of the other commodities. But since all commodities were sold at this higher price, a producer's surplus arises, due to the difference between the marginal cost of the last commodity, and the marginal cost of each commodity.

Marshall's consumer's surplus and producer's surplus are radically different notions from the classical social surplus, since Marshall resorts to supply and demand curves which were not used by the classical authors, and are indeed inconsistent with classical analysis — see Garegnani (1998). The supply and demand curves which enable Marshall to define the consumer's surplus and the producer's surplus are obtained through marginal analysis, and spring from the abusive generalization of the notion of scarcity, like all the neoclassical theory that emerged after the marginalist revolution. In particular, Marshall is drawing upon the classical the theory of rent, which for Ricardo was applied only to land, that is, to the case of natural resources.

According to Ricardo, rent emerges because different lands have different productivities. Ricardo defines the rent of a given land as the difference between the value of the product obtained in that land, and