



Critical review

Institutional individualism and the pricing metric: Epistemological arguments against neoliberal policies



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ABSTRACT

This paper aims to support arguments that Parr and Knox-Hayes developed in two recent articles published in *Geoforum* against neoliberal market-oriented policies in the environmental realm. We advocate for distinguishing between epistemological, ethical and political arguments in order to tackle the political economy, which the neoliberal pricing metric relies on. We suggest that North's institutional individualism and Sen's capabilities approach offer consistent and relevant theoretical frameworks for overcoming the failures of mainstream economics.

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1. Introduction

Geoforum recently published two contributions by Parr (2015) and Knox-Hayes (2015) dealing with the limits of neoliberal policies and discourses concerning environmental issues, mainly:

- “neoliberalism has become the standard against which all social, economic, cultural, and political responses to climate change are measured” (Parr, 2015: 70);
- “The problem is reduced to a series of pricing metrics – the allocation of rights to emit greenhouse gases – and the exchange of these rights”, while “price is a singular metric that discounts not only social attributes of valuation, why and for what purpose

clean water has value, but also the material nature of value – namely, what is required to produce clean water” (Knox-Hayes, 2015: 298).

We agree with the main arguments suggested in these articles. However, by addressing the neoliberalism's political manifestations they do not clearly address the political economy that founds moral arguments of neoliberal policies or discourses. For example, Knox-Hayes (2015) argues that “ecological modernization through market-based governance draws heavily on microeconomic theory” (2015: 298). Yet, microeconomics is an heterogeneous body of theories, and recent research trends tend to overcome many limits of the original neoclassical model, such as the moral (or ethical) basis of individual choices. Consequently, many micro-economists could argue that the theories attacked by Knox-Hayes are those used by policy-makers or by international organizations rather than those that all economists practice.

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This paper aims to further Parr and Knox-Hayes arguments and to contribute to the criticism of neoliberal solutions to face the global environmental crisis. If Knox-Hayes conclusions are particularly directed at neoliberal policies, her arguments are partly irrelevant to the theoretical foundations of pricing metric or markets' valuation processes: utility still founds the value metric methodology.

The pricing metric applied to environmental issues is to be understood as the permanency of a fundamental belief of mainstream economics rooted in the 19th century thought:

- Value is *intrinsic* to commodities and is a *natural fact*.
- Market processes reveal commodities' value so that prices reflect the *true* value of commodities.
- Market processes are *just* (or fair) in the sense of procedural justice.
- The *true* value emerging from markets reflects social utility.

Such beliefs are clearly expressed in the Walrasian paradigm and they founded neoclassical theory. We assume that whenever economics progressively abandoned the core assumptions of neoclassical theory (Blaug, 1999), it stays embedded in these founding beliefs that lead international organizations to think they can design an ideal system of pricing metric in order to solve environmental issues. We first address in Section 2 the ethical foundations of pricing metric in order to tackle epistemological issues. In Section 3, we suggest, how these issues can be overcome even within an institutional individualism theoretical framework.

2. The pricing metric and its ethical arguments

In the words of its leading economist Pavan Sukhdev, the TEEB "aims to promote a better understanding of **the true economic value** of ecosystem services and to offer economic tools that take proper account of this value" (2008, 9). As a former banker, Sukhdev believes that "you cannot manage what you do not measure" (TEEB, 2008, 6). A "sound economics" is then mobilized in order to make "a comprehensive and compelling economic case for conservation of ecosystems and biodiversity" (TEEB, 2008, 4–5).

The TEEB initiative makes claims about escaping from mainstream economics in order to grasp biodiversity issues. Such a claim is now very common and consistent with the slow collapse of neoclassical assumptions (Blaug, 1999). For example: "If we discard the straightjacket of Walrasian mathematics we can begin to sort out what can be priced, what can be measured without prices, and what cannot be measured at all but still valued" (TEEB, 2010, 22). It is then not surprising that the TEEB promoted methods of valuation related to new trends in microeconomics, such as experimental and behavioral economics, which aim to overcome the limits of abstract and purely hypothetical models and to understand the "actual" preferences and behaviors of individuals by observation.¹ Pricing metric applied to biodiversity and ecosystem services is consistent with the recent development of a naturalistic pragmatism (Hartner, 2014), where economics is associated with methods of observation and experimentation used by other sciences (neuro-economics is a perfect example of such a methodology). Concerning the valuation of nature, the aim is clearly to mobilize both "science and economics" (TEEB, 2008, 5), and "to firm up a science and economics framework" by "integrating ecological and economic knowledge" (TEEB, 2008, 58).

The critical point is that the integration of economic with sciences, such as physics, biology, neurobiology or ecology is to be understood as a constant effort to ground scientifically a *true*

explanation of economic phenomena. It is such a *true* explanation, grounded on *true* and *compelling* scientific results, which can support the idea of a *true* value of nature. This reinforces an initial belief of economics: market mechanisms endeavor the emergence of *true* prices. This belief is one of the ethical foundations of market economy: it ensures the linkage between market's autonomous and anonymous forces with different principles of justice. It is this belief that transcends the different theories of value. The scope of economics is partly to demonstrate that free market prices reveal *the real value of commodities*.

Both labor and utility theories of value rely on the belief that value is intrinsic to commodities (Orléan, 2003). Such an assumption is fundamental to distinguishing between on the one side a real value and on the other side a monetary price, the latter being supposed to reveal the former through market mechanisms. In such a paradigm, value is nothing but the objective result of economic individual interactions. The latter are defined under conditions that ensure the *objectivization* of value since no individual can himself influence the prices or subordinate anyone's decision, i.e. the "exemption from coercion" (Hayek, 1978). These "process aspects of freedom" (Sen, 1993), are consistent with "procedural justice" (Rawls, 1999), defined by normative assumptions close to those of democracy. This is the core of Walrasian system of political economy used to demonstrate the consistency of market with democratic freedoms (Tarascio, 1978; Bridel, 2011). Walras's arguments are both positive and normative (Ekelund and Hébert, 2003):

1. On the positive side, the assumption that "pure economics", i.e. the science of prices, is a "physico-mathematical science" (Walras, 1954, 71), which criterion is the "truth" (Walras, 2014, 18), since "the distinguishing characteristic of a science is (...) the pursuit of pure truth" (Walras, 1954, 52).²
2. On the normative side: the coincidence of democratic principles and pure competition assumptions ensures the coincidence of true scientific results and those of an enquiry into "social economy" whose criterion is "justice" (Walras, 2014, 18).

It is then a fundamental assumption of Walrasian economics: throughout market processes, the subjective individual values lead to an objective social value which only reflects free individual choices under exogenous constraints (among which the scarcity of natural resources). Then, according to the Walrasian (also Marshallian) theoretical framework, it is wrong to say that:

- "price is a singular metric that discounts not only social attributes of valuation" (Knox-Hayes, 2015, 298);
- "over time, the use element of value has been increasingly obscured in the drive by markets to create valuation through instruments of exchange" (Knox-Hayes, 2015).

Indeed, what Parr or Knox-Hayes call "neoliberalism" is partly founded on the beliefs that:

- a 'sound' governance can improve the convergence or actual markets to ideal markets that reveal the real value of commodities according to a specific procedural justice;
- whenever competition is imperfect, it tends to provide an acceptable procedural justice under governance principles deducted from a 'sound' economics.

When there are too much market failures or even no markets at all, some economists do believe they can provide technical substitutes throughout elegant formalist models. The

¹ See for example chapter 5 (*The economics of valuing ecosystem services and biodiversity*), especially Section 3 (*Valuation methods, welfare measures and uncertainty*) in the TEEB (2010).

² See Walker (1996), especially chapter 2.

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