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Shared economic thought and the neglect of social costs.
Why progressive economists often stick to
conventional wisdom

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Abstract

The paper deals with the lack of attention that many socially-minded economists pay to social issues, with social costs being a special case. It argues that while these economists acknowledge that social costs exist and are rooted in the way the economy functions, they do not frame their economic inquiries accordingly because they believe that scientific dialogue is possible only by accepting a commonly shared ground for scientific inquiry, which focuses on restricted but generally accepted goals. This behavior obscures a major implication of systemic openness, i.e. that the choice of goals and the way scientific inquiry is carried out do not depend on once and for all criteria but require the explicit formulation of a range of value judgments. The conclusion of the paper is that it is possible to deal with social issues and to carry out a scientific dialogue but this requires a two tier dialogue: one relates to the shared grounds of inquiry; the other to the specific issues to be investigated.

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1 Introduction

About fifty years ago K.W. Kapp wrote a book (Kapp 1978/1963) on the social costs of business¹. He provided broad evidence of a range of actions that allowed businesses to shift their private costs onto workers or other members of society, thereby turning those costs into social costs. Although Kapp's other work (see, for instance Kapp 1985) provided a broader methodological and theoretical background, the book was probably considered interesting but confined to a somewhat specific topic or, maybe, too radical to deal with². Quite to the contrary, Coase's (1988/1960) more or less contemporary attempt to reconcile the notion of social cost with efficiency considerations raised a great deal of academic debate.

Fifty years have passed and there still is reason for concern with respect to a range of issues. Consider the following examples³. Producers of mobile phones do not only disregard independent research that shows the negative effects of such gadgets on human health. They also finance studies that dispute the above research, most often by resorting to "doubt creation", i.e. questioning the scientific reliability or methods of the scholars who carried it out (Frigato, Santos Arteaga 2012). In so doing, they have all to gain from the financial restrictions on publicly funded research, which is the only means to achieve independent research.

Moving to a rather different context, the emergence of the "downsize and distribute" governance principle - based on the centrality, for corporate management, of shareholder-value (Lazonick, O'Sullivan 2000) - has led to a major redistribution of income and wealth in most Western countries (Petit 2010) as well as to declining growth rates and financial instability. The related financial innovations which eventually led to the recent crisis (Kregel 2009), underlie the homelessness of households who originally benefited from apparently convenient subprime mortgages.

The unemployment that preceded and followed the outburst of the present crisis certainly depends on low aggregate demand. It also depends, however, on other circumstances such as business strategies that tried to bypass - through organizational and technological innovations - the "political" issues associated to full employment (Kalecki 1943) but also "dysfunctional" institutional arrangements that - especially in some countries - reflected an inconsistent compromise among different social sectors (Rangone, Solari 2012; Solari, Gambarotto 2012), thereby enhancing a "low road" to development (Sengenberger and Pyke 1992).

Finally, an environmental catastrophe may occur as a result of a pattern of industrial development that is inconsistent with the long run sustainability of the environment. A similar catastrophe might result from inadequate preliminary controls over the possible effects of genetic engineering.

These are only some of the possible circumstances that, intuitively, can be reconciled with Kapp's original treatment of social costs. They differ in many respects. Some relate to manufacturing, others to finance, some are micro, others are macro. Finally, some have a clearly systemic nature⁴. Quite independently of their specific features and of the very way that social costs are defined, one would expect that different schools of economic thought should share a common ground of discussion: that there is a gap between what society reasonably expects from the economy and what it actually obtains. If we preliminarily define social costs in this very broad sense - as a gap between actual and socially desired economic outcomes - it is somewhat of a surprise that, aside from market fundamentalists and representatives of vested interests, they should not take center stage in the economic discourse. As it happens, this is not the case. Furthermore, as we saw above, actual discussions about the theory of social costs have restricted the subject in such a way that it is generally conceived of as a special topic of welfare economics, that of market failures⁵. As for discussions concerning policy, emphasis is on priorities that meet everybody's consensus, as if the

¹A previous version of the book, the title of which was *The Social Costs of Private Enterprise*, was published in 1950.

²See Berger (2012) for a discussion of the debate between Kapp and his contemporaries.

³Passas and Goodwin (2004) provide a detailed treatment of industries that cause dramatic social costs and, yet, are not appropriately regulated, not to mention banned.

⁴This obviously raises questions concerning their correspondence with Kapp's notion of social cost. They will be dealt with in the discussion that follows.

⁵This is consistent with Dymski's (2012: 3) claim that neoclassical theory tends to function as an "intellectual sink" whereby "all ideas are understood vis-à-vis their distance from Walrasian general equilibrium."

“sectional” issue of who is going to suffer the consequences of the present crisis was of secondary importance, one that either is not relevant or that can be dealt with when all the trouble is over. While this view may be reasonable for those who do not care for an alternative to the *status quo*, it is somewhat surprising that it should be accepted by people who display their ethical concern for the implications of economic activity and of the policies that are supposed to deal with it⁶.

The aim of the paper, therefore, is to focus on the reasons why social costs – viewed as a special case of social issues - do not constitute a common reference point for many conventional⁷ economists despite their progressive⁸ views. It leaves aside accounts that focus on strictly sociological circumstances - such as political and academic censorship, or the ‘publish or perish’ frenzy which prevents scholars from broadening their overall views – as well as on the specifically psychological consequences of ideological disillusion⁹. It also leaves out strictly methodological issues such as the scientific faith in axiomatic-deductive approaches to social sciences or the reductionist specialization within academic disciplines. Although all of the above circumstances are important – and, indeed, related to the topics discussed here - the paper focuses on the theoretical stance of many progressive economists who believe that it is possible to pursue social well-being by acting on economic activity – and, in general, on income growth - independently of how such activity relates to social costs. Although they need not deny that social costs may exist, they conceive of them as a side issue that policy can deal with quite independently of the key issues. The paper discusses this inconsistency: a concern for social issues that does not lead to a corresponding concern for the economist’s toolbox¹⁰.

Social costs are an aspect of the social implications of economic activity that economists know about and that have been framed in one way or another. This allows us to proceed rapidly through the different theories and accounts of these phenomena. Thus, the paper begins by distinguishing efficiency-related and ethics-related approaches to social costs within a conventional view of markets (Section 2). It draws the conclusion that, based on these views, the notion of social cost can actually be viewed as not particularly meaningful. It then examines approaches that, for various reasons, deny the factual or conceptual relevance of social costs (Section 3), thereby providing further arguments that suggest the irrelevance of the notion of social cost. The conclusions of the approaches in these sections are based on strong assumptions concerning the structural features of the economy. Section 4 discusses these assumptions. Section 5 extends the discussion on structure by referring to the contributions of Kapp and Polanyi and to their view of the economy as an open system. This view not only provides a different perspective on social costs in terms of the difference between societal requirements and the rationale of a market capitalist economy. It also provides interesting insights on why these costs are disregarded. Section 6 discusses this disregard by arguing that conventional economists are often misguided by an apparently neutral faith in scientific debate, thereby overlooking the value judgments that underlie how economic inquiry is framed. Section 7 points out the implications that this has for discussions among different strands of economic thought. In particular, it suggests that a more convincing way to approach conventional economists – at least progressive ones – is to point to the above depicted inconsistency by laying less emphasis on the answers – the theories and how they are devised – and more on the questions: what the key societal requirements are that the economy is supposed to meet.

⁶The conventional objection to this remark could be that a rigorous economic approach transcends ethical concerns. This is precisely what the present paper wishes to shed doubt on.

⁷‘Conventional’ refers, here and in what follows, to the mainstream but also to those heterodox economists who believe that income and growth are the key issues that economic analysis is supposed to deal with.

⁸By ‘progressive’ I refer to people who are willing to view societal ends in terms of the quality of life of society’s members.

⁹Brown (2001) provides an interesting discussion of psychological reasons why members of the Left maintain a market-centered view of the world.

¹⁰The existence of this inconsistency was pointed out years ago by Hahn (1973) who, with his typical sarcasm, considered it a psychological problem of economists who “came to the subject hoping to do good and to be useful and find that they can do far less than they had expected” (322). Hahn’s main concern, obviously, was not that economics might need to be reassessed. Rather: “What I think disturbing about so much of this literature is that it is so bad” (*ibid.*).

2 Social costs: a misnomer?

Is there any such a thing as a social cost? Isn't it more appropriate to refer to market imperfections or market failures? Pigou's notion of social cost relates to the inadequate functioning of the market. The inadequacy involves an inefficiency: if it could be removed or somehow made up for, economic welfare would be greater. On the other hand, what point is there in defining a concept such as social cost with regard to a problem that may have no solution? Coase and other New Institutionalists have stressed that, since it is pointless to refer to an ideal market, social costs should be dealt with in terms of the actually existing economy. Thus, appropriate solutions are those that prove to be practicable and better than others. This requires a case by case inquiry. Viewed from this perspective, social costs exist only in so far as there exists a relatively better – i.e. relatively more efficient (Williamson 1993) – way to make the actual economy work. If that is not possible there is no point in talking about social costs.

Although this approach appears pragmatic and sensible, three important assumptions of the New Institutional approach should be kept in mind. First, (economic) welfare depends on the amount of available output: albeit subject to Pareto requirements, the more output is available the greater welfare is. Since output results from the, however efficient, allocation of resources, property rights should be assigned according to efficiency criteria, i.e. the obtainable output. Second, the assessment of relative efficiency – thus the assessment of what should be the appropriate assignment of property rights - is based on the existing institutional and price system, thus on the already existing endowment of property rights. The upshot is that the reference point for any change is the *status quo*.

Given New Institutionalist reliance on the *status quo*, social costs exist only insofar as efficiency can be improved through some (efficiency-enhancing) institutional arrangement. Once the appropriate institutions are in place, social costs as such disappear. Distributional issues may exist – typically the compensations due to those who incur losses as a consequence of an efficiency increasing institutional change – but these are conceptually distinct of the social cost issue as such. This reflects the third assumption: the distribution of output follows its production. Equity issues may be taken into account but only once output has been achieved.

A different perspective turns the priorities around (Schmid 1987; Bromley 1989; Samuels, Schmid 1997). Since an efficient allocation of resources is possible for any initial endowment and institutional setup, the former follows rather than precedes distributional choices. An efficient allocation can be conceived of for any initial equity-related decision. The key issue is to compare different arrangements not in efficiency-related terms but in ethically related terms. Thus, if a law is introduced that forbids child labor, this decision may reflect a lexicographic preference whereby children should go to school and play but not work, no matter what consequences this is going to have on output, or growth.

Contrary to what the previously outlined approaches suggested, this one contends that there is no two-step procedure whereby first you produce output according to strictly techno-economic criteria and only then you may choose to redistribute it according to some ethical value. The very way you produce output depends on a legal-economic nexus that reflects ethical values.

Under these circumstances, social costs are not an efficiency related issue anymore. They are an ethical issue. They can exist only insofar as the legal-economic nexus does not reflect the preferences of society. Indeed, the existing nexus may depend on the value judgments of different types of actors: a community, a conventional policy maker, a benevolent or malevolent dictator. It may not match what society as a whole – or sections of it – deems appropriate. In so far as they depend on the legal-economic nexus, however, social costs turn out to be less an economic issue than one related to the polity.

The above discussion suggests that social welfare may be reduced by two circumstances. Both lead us to the conclusion that the term social cost may actually be somewhat of a misnomer. If we refer to a malfunctioning of the market, what is at issue is a lack of efficiency, which is independent of whatever society might desire that transcends the market: the notion of externality would seem to be more appropriate. If we refer to an inconsistency between the desired and actual functioning of the legal-economic nexus, the issue is not one of costs but of inadequate polity.

It might be appropriate, however, to ask whether this discussion is putting the cart before the

horse. Quite independently of how they are labeled and accounted for, are social costs actually relevant as a matter of fact? Negative answers to this question are based on the contention that a conflict between social and private goals does not, and/or cannot, occur. These answers are the topic of the section that follows.

3 Social costs: an irrelevant concept?

Independently of how the above approaches deal with social costs, they share the view that some kind of divergence can be identified. This view – or its relevance - is nonetheless questioned. There are three ways to do this. The first one is fairly straightforward: there is no social cost because there is nothing that may determine a conflict between private and social costs. Consider the debate over sustainable development since the Club of Rome report. Some scholars deny that growth disrupts the environment so that, from their perspective, a trade-off between growth and the preservation of the environment simply does not exist. The terms of the discussion, here, have to do with the available evidence relative to the existence of the presumed trade-off. Thus, what is questioned is the practical – not the conceptual - relevance of specific social costs¹¹.

The second way to question the relevance of a trade-off is to believe that output and societal requirements actually go together. Consider child labor and assume that it is not considered a lexicographic preference, so that its pursuit must be assessed in the light of other goals, typically growth. Following this perspective, it is fairly reasonable to believe that, if children go to school, not only do they have much to gain individually but the average level of education will rise, thereby allowing a higher potential growth rate to be achieved. Assuming that this is true, it is at the same time efficient and just to forbid child labor and whoever were to argue in favor of it would not simply be blameworthy from an ethical point of view: on efficiency grounds s/he would be downright wrong!¹²

This second perspective is similar to the previous one but it stresses that the ethical issue is encompassed by the efficiency-related one. It therefore suggests that it may be better to leave aside ethical considerations when discussing economic issues: while disputes over value judgments, concerning equity or social justice, may be extremely difficult to manage and are difficult to solve, exclusive focus on efficiency – somehow defined - is more likely to lead to a common agreement.

This type of argument appears to be reasonable but it may be misleading. The notions of social justice and efficiency lie on conceptually different grounds. Social justice has to do with value judgments concerning what we deem ethically appropriate. Efficiency relates to the achievement of a very specific and circumscribed goal on the basis of how the economy works. Social justice has to do with our beliefs concerning our lives in their entirety whereas efficiency pertains to a single dimension of our lives. Social justice encompasses economic efficiency; the obverse is not true unless one equates output with social justice. Thus, by framing the discussion in efficiency terms, we implicitly assume that it is not worthwhile to discuss about ethics or, more precisely, that whatever transcends output is irrelevant¹³.

The third reason why discussions about social costs may be deemed useless is based on the claim that, whatever our ethical goals may be, structural rigidities of the economy are such that it is not possible to take them into account. At the very least, ethical goals may be dealt with in the use of output.

¹¹B. Lomborg (2001) is one of the leading scholars who argued that no environment catastrophe was likely. Although he did acknowledge that environmental issues could exist, he pointed out – much like the New Institutionalists – that they could be identified in terms of costs and benefits, i.e. price-based trade offs.

¹²It is noteworthy that a similar convergence also appears in Post Keynesian (particularly Kaleckian) models, where distributional equity goes hand in hand with income growth.

¹³This assumption may be grounded on a tactical view whereby this makes it easier to dialogue and possibly convince one's adversaries. Suppose, however, that, contrary to what we assumed above, it turns out that child labor would actually enhance economic growth, maybe because it would provide ever more resources for a selected group of non-working children to achieve a relatively higher standard of education. It would be difficult at that point to claim that ethics does matter, since we are the ones who framed the argument in a way that denied precisely that. Tactics may lead to unpleasant backlashes.

According to this view, the boundaries of the economic discourse are given – presumably once and for all - and ethics lies beyond them, so that there is no interdependence between value judgments (thus ethics) and output. This reflects a view whereby the economy – and, correspondingly, the discipline that studies it – is systemically closed, so that all of the interactions that characterize it can be potentially understood independently of the issues – including the ethical ones - that arise beyond those boundaries, i.e. in the surrounding environment (Chick 2004). Furthermore, interdependence within the economy is believed to be such that there are no degrees of freedom that allow to direct the economy in one way or another: there are only ‘single-exit’ outcomes (Latsis 1972). Thus, while post WWII welfare states relied on some structural flexibility within the economy to provide unemployment benefits - on the grounds that output could be used according to principles of solidarity within a community - subsequent denial by neoliberal theorists of this internal flexibility has led to workfare policies, which are based on the belief that welfare benefits determined by such output distribution negatively affect the production of output itself. In other terms, any criteria other than efficiency undermines output, which is what the economy is all about.

This “There Is No Alternative” approach, which is typical of those that Keynes (1963/1925) depicted as “die-hard conservatives”, is sometimes shared by progressive scholars who stress the interdependences of the economy to the point that the only alternative they do envisage is what the Italian economist Federico Caffè ironically referred to as a “revolutionary palingenesis”¹⁴.

The discussion in this section and in the previous one examine different ways that ethical values may relate to economic performance. In some instances they can act upon such a performance, in others they cannot. Either way, the implicit assumption is that ethical judgments are not only conceptually distinct of the market but also factually distinct. Ethical judgments may, in some cases, direct the market – thus the economy – in order to achieve one goal rather than another, much like one may drive a car to different places. How markets actually work – how they allocate resources - remains a technical issue, however; it is independent of ethics. It is therefore important, at this point of the discussion, to focus on what economic structure we should be referring to. This is the topic of the next section.

4 What structure?

Leaving aside the case where the social cost problem is conceived of as technical, in that it has to do with the inefficient functioning of the market, let us consider when ethical issues are explicitly taken into account. In one case, the gap between ethically desired and actually realized outcomes is a matter of political will, in the sense that it is just a matter of devising a proper legal-economic nexus. Failure to achieve such a nexus reflects a polity-related problem, not a strictly economic one: actual political will – what the government does - may differ from, or may fail to achieve, what a community wants. In the other case – when structural rigidities prevent any action - political will cannot act upon the economy because it would prevent it from working properly. Despite their differences, these two ways to look at the economy both assume that a separation between ethical and economic issues is possible. The implication is that any ethically determined policy – be it positive or negative - occurs from outside the economy.

But is the solution to any problem just a matter of arranging the economy so that it will eventually function as desired? Another way to look at the question is: do economic actors passively adapt to the economic environment? While this assumption fits with the conventional view of *homo oeconomicus*, it is hard to believe that this is generally the case. Not only do businesses lobby to obtain a legal-economic nexus that meets their requirements. They act upon the perception and understanding of the economy through - among other means - advertisements, think tanks, financing of research (Levis, Gennaro and Garbisa 2012). In so doing, they try to shape the behavior of other economic actors – typically consumers, but also workers and firms within their value chains – as well as the views of policymakers over how to frame the economy. In this perspective, innovation need not be centered on what final consumers want. As studies on financial innovation (Minsky 1957) have stressed, its main goal may be to bypass regulation. Alternatively, as Marglin (1976) and

¹⁴Caffè’s thought is discussed in a recent symposium on *History of Economic Ideas*. See Ramazzotti (2012).

Braverman (1974) argued, innovation may aim at a conscientious withholding of knowledge from other economic actors in order to act upon the mutual balance of power. In other words, businesses try to change the rules of the game as they play it. Changing the rules is part of what the proactivity game is about.

Other actors may be just as proactive, although they usually lack the economic and financial power that business has. They, too, try to change the rules of the game, at the strictly economic level – as in the case of wage hikes – at the cultural level – for instance, by fostering different gender relations, which will eventually feedback on the concept of “breadwinner” - and at the policy level, through activist campaigns to change the legal-economic nexus. Economic interaction does not occur through market (price) cybernetics alone – albeit within the bounds of a legal-economic nexus - but in a much more complex way. Not only does it involve a variety of variables but also knowledge, i.e. how those variables are perceived and situated within an interpretative framework.

Under the above circumstances, social costs occur not only because the economy – through the legal-economic nexus - may be inadequately arranged but because interaction within it reflects goals that are intrinsically inconsistent: those that underlie business activities in a capitalist market economy and those that underlie other sections of society. This interdependence between conventionally economic goals and conventionally social goals is just a way to state that the economy is an open system (Kapp 1985)¹⁵. Although an ethically appropriate legal-economic nexus is important, it is not enough in the light of an evolutionary process determined by what K. Polanyi (1944) referred to as the double movement: the restless efforts that business makes to bypass whatever curbs profit and whatever attempts other sections of society make to embed the economy in society¹⁶.

This different approach to structure is where the social costs issue turns out to be particularly difficult to deal with. The approaches discussed above share a common view of the economy which is ultimately centered on the production and distribution of goods/commodities. The open systems approach depicted here suggests that, although these issues are important, they are not exclusive nor can they be analytically isolated – as a rule - from other socially relevant issues. It contends that no once and for all terms of reference exists. In order to see the implications this has for our main topic, let us delve into the systemic openness issue.

5 Systemic openness and social costs

The approach to social costs that Kapp and Polanyi (1944; 1957; Swaney, Evers 1989) provide is based on Veblen’s key dichotomy. The rationale of a market capitalist economy is to make money. Making money need not be correlated to making, or doing, something that is socially useful. The domain of economic relations is centered on what Marx identified as exchange value, while use value only has an ancillary function.

Social costs are, in this perspective, the consequences that the economy has on domains that transcend the economy. In this sense they recall the conventional notion of externality. But social costs are not external to the market because of a flaw in the way the latter works. They are consistent with the goals pursued in a capitalist economy. They are the latter’s side effects on people and on nature. They may eventually feedback on the economy but, unless this actually occurs, they neither affect business goals nor are relevant in any other way. Much like in the conventional theory of externalities, the economic effects of business behavior and/or contracted exchange lead to consequences that lie beyond the economy. Contrary to conventional views, these consequences cannot be generally internalized: despite attempts to monetize them, there are aspects of human life – above all human rights – that escape money-centered relations.

Cost shifting, as defined by Kapp, is integral to the rationale of a capitalist economy. Since business is concerned with making money, it makes sense to shift the company’s private costs onto its workers or onto society as a whole. Polanyi’s (1957) distinction between the formal and the

¹⁵An important implication of this interdependence is that economic evolution based on circular cumulative causation cannot be restricted to strictly economic variables. For a detailed discussion of this issue see Berger and Elsner (2007) and Berger (2008).

¹⁶Obviously, the evolutionary process depicted here need not be exclusive. Other patterns of evolution may occur, e.g. those associated to inter-firm rivalry. Openness is multi-faceted.

actual economy is based on the same criterion: it accounts for the progressive embeddedness of society within the economy.

These approaches may appear restrictive from an open systems perspective: issues such as global warming and the possible disruption of the human and natural environment by genetic engineering have nothing to do with the decisions of single businesses: their systemic nature seems to involve more than just cost shifting. Indeed, these effects can hardly be traced back to single decisions. They do reflect, however, the same gap - between a price-centered system of accounts and a social-value system of accounts - that underlies cost-shifting. They have to do with the pursuit of goals that transcend social goals.

There is another aspect of systemic openness that deserves to be pointed out, especially because Kapp and Polanyi did not lay great emphasis on it. It is the systemic openness of knowledge. The gap between the rationale of a capitalist economy and the needs of society implies that the information and the interpretative frameworks that are functional to, and consistent with, capitalist economic behavior need not fit with the understanding of social requirements and of the means to meet them (Ramazzotti 2007). Making money does not involve taking account of a range of consequences on nature and society. Identifying these consequences and their negative effects would require collecting and interpreting information - thus, learning - at a cost that might be convenient for society but not for a profit-pursuing private business. Thus, innovation in mobile telephony or in nuclear power plants may have positive effects but the negative ones - including having to identify the latter - are shifted onto society.

It is rather important to point out that what is at issue, here, is not just whether information is available or not. It is how that information is perceived, selected and interpreted: how learning leads to one type of knowledge or to another. Some learning processes are fairly easy to define: M. Polanyi (1962), for instance, considers the example of finding a pen you lost in your room or finding the right word in a crossword puzzle. You know what you are seeking and you know when your search gets to an end. Understanding Mathematics, quite to the contrary, is an ongoing process. Not only does it never end; the rules you choose to abide by in your inquiry may change over time, in relation to the changing nature of the problems that you are dealing with. In a world where everything is, in one way or another, connected to everything else and nobody has the substantive rationality to make sense of all the connections, the knowledge that matters with regards to the effects of economic activity is much more like Mathematics than like crossword puzzles¹⁷.

In order to proceed, under such circumstances, there is a need to draw boundaries so as to circumscribe the issues to be understood, thus, the fields of inquiry (Georgescu-Roegen 1976). This tracing of boundaries occurs in a context of uncertainty: you necessarily leave something out, and you will probably never know whether there was something beyond the boundaries that you have traced which might have been relevant to your inquiry. In order to trace these boundaries you draw on all of the knowledge you have accumulated up to that point in your life. Even though you can obviously draw on the knowledge of others - e.g. by conforming to what others do - the discretionary nature of the boundaries remains.

The same applies to the heuristics you use when you process the information you gather from within those boundaries (Simon 1972). What is crucial in the decision over how to draw the boundaries and how to process the information is what question you are asking, i.e. what issue you are trying to understand. This is also crucial to the conclusion of your research. Given the openness of the research process, there might be no point where you reach a definitive conclusion. More precisely, as Keynes points out, learning more about something need not involve less uncertainty (Dow 1996; Chick and Dow 2001). But if you have to take some decision, you must eventually put an end to your inquiry. Much like in boundary-tracing, deciding when to stop involves accepting the risk that you miss something that you could have learnt which would have been relevant. The aspiration level (Simon 1972) that underlies your decision, much like the way you draw boundaries and choose the heuristics you resort to, depends on whether you are concerned with making money or with other goals. This suggests that learning may proceed in many directions, depending on what is sought and, consequently, on what aspects of reality the learning process focuses on.

¹⁷This is not to suggest that axiomatic-deductive reasoning is sufficient, as the discussion that follows should point out.

One implication of the above discussion is that what is ethically important for society is the (always provisional) outcome of an ongoing and deliberative, if constrained, learning process. It is within this process that firms attempt to affect the understanding of the world we live in. They do so not necessarily by providing a false knowledge – although this happens as well (Starr 2012) - but by providing a profit-centered perspective. They therefore obscure social priorities when they are not consistent with business priorities. Drawing on Bush’s (1994) notion of ceremonially encapsulated technology, we may refer, here, to ceremonially encapsulated knowledge. As a result, people are deprived of the opportunity to adequately assess what their needs actually are. This suggests that social costs are determined not only in ‘real’ terms but also at a cognitive level, through knowledge creation.

The conclusion this leads to is that the gap we referred to in the Introduction, between socially desired and actual outcomes may be less easy to identify than one might think. Knowledge is the outcome of a collective learning process where it is in the interest of some actors to provide not only biased information and distorted views but also reasonable interpretative frameworks that are, however, subject to the constraint of consistency with their vested interests. This knowledge may not meet the problem-solving requirements of other sections of society or of society as a whole, but ascertaining this may be problematic. Identifying the inconsistency between social problem-solving requirements and problem-solving procedures made available by business may require not only a feeling that something is wrong but also a learning process to situate what is wrong in a more general understanding of economic processes. This is precisely what business centered views of the economy avoid. From this perspective social costs also include the despoilment of the knowledge required to pursue a better quality of life.

It is reasonable to claim that progressive economists should be willing and capable to contrast this despoilment. Although, just like other people, they are subject to the influence of knowledge creating action by business, they may be better equipped to resist it because of the critical attitude that research and intellectual activities tend to generate. It is nonetheless the case that more important elements may lead them to neglect the importance of social costs. To a discussion of these we now turn.

6 Social costs and scientific dialogue

The discussion on openness and learning leads us back to the question why social costs are not so central to the economic discourse. While it is fairly understandable that many scholars do not share the ethical concerns – i.e. the value judgments - underlying social costs, there are other economists who are progressive from the very outset, i.e. before they start to reason as economists, and yet maintain a conventional approach to the discipline. In order to understand what appears to be a paradoxical behavior, consider how people, as they become adults, tend to formulate some rough view of the world: how they believe it is and whether they like it or not. It generally is not a full-fledged view but it allows them to make some sense of what policy perspective would be appropriate. Thus, even if in a vague sense, they choose to be progressive, conservative, etc.

When they study economics, they are trained to formulate a more rigorous view, one that is internally consistent, as well as plausible in relation to what they see, and one that is not self-referential at the individual’s level but subject to scrutiny by fellow economists through scientific dialogue. As a result, they are confronted with two perspectives. An all encompassing, if rough, one that tries to make sense of how life is and how it ought to be and a more refined one that focuses on a specific section of reality according to more rigorous – but also more binding - rules.

The two perspectives may or may not be mutually consistent. Inconsistency may relate to various circumstances. One is the rigidity of the assumptions underlying economic inquiry, whereby internal consistency is achieved at the expense of relevance. Another one is the complexity of their overall view of the world, which, as we mentioned above, can hardly encompass all issues.

When an ethically progressive economist realizes that the two perspectives are mutually inconsistent, s/he may be willing to view social costs not as subordinate issues, relative to the proper functioning of the economy, but as economically relevant problems in their own right. The issue is

what this implies for economic inquiry.

A systemically open economy is not defined once and for all. Neither the boundaries of the economy nor economic goals can be taken for granted: they must be identified. The more extensive a view one has of the economy, however, the more interdependences s/he will need to take into account, so that economics will be difficult to model. Furthermore, extensive views involve a broader range of possible goals. As a result, economists may easily end up either debating at cross-purposes or discussing about what the relevant issues are, which means dealing with value judgments.

The conventional way to deal with these problems is to make two claims. First, following the principle of parsimony – generally associated to Occam’s razor - economic inquiry should be made as tractable as possible. Second, disputes over value judgments should be avoided since they can hardly lead to any reliable conclusion. Both claims try to address what many scholars fear, i.e. the transformation of economics into a “relativist” forum, a Tower of Babel. They try to avoid this situation by seeking a common ground, especially when it comes to deciding about economic policy. A typical such ground is GDP: although many scholars are aware that it is an inadequate indicator of social welfare, they acknowledge that it is important¹⁸. It need not imply that everybody will agree on the relevant policies. For instance, in Lipsey’s original treatment of the Phillips curve, the policymaker had to pursue income growth subject to its negative effects on inflation. Which choice s/he made depended on her/his assessment of what was best for the community: s/he had to formulate a value judgment. On the other hand, by being commonly accepted as a general goal, growth allows scientific dialogue to occur.

While this approach may be reassuring, it involves a range of implicit value judgments that are of no minor importance. Thus, choosing GDP, or any other policy goal, has to do with one’s views of what is socially desirable. Such a choice involves what we can refer to as a *moral value judgment*. Given this goal and subject of inquiry, we need to frame our inquiry by defining boundaries, heuristics and aspiration levels that conform to that subject. In so doing, we resort to further value judgments, those concerning what the appropriate understanding of the economy is. The observer must formulate – either explicitly or implicitly - a value judgment concerning the relevance of any suggested view/interpretation of the economy for the specific issue s/he is concerned with. We may refer to these as *cognitive value judgments*. Moral value judgments are generally associated to the identification of goals, to the choices that policy implies and to the subsequent assessment of the economy’s performance. Cognitive value judgments relate to whether it is appropriate to include certain issues and/or to exclude certain others from an economic inquiry.

Cognitive value judgments involve two issues. The first one has to do with the range of interactions that affect a given phenomenon. Thus, the AIDS pandemic in many African countries may be deemed irrelevant to the discussion about the role of trade related intellectual property rights (TRIPs) on pharmaceutical products, on the grounds that the public good nature of knowledge and its implications for research and development (R&D) are independent of what diseases there are around the world. If you define the boundaries of the issue in these terms, however, you will (choose to) neglect that TRIPs affect the health conditions of the working population, thus productivity and output in the pandemic-stricken countries. In other terms, even your efficiency-centered considerations – concerning output - may be biased by a restrictive definition of the boundaries¹⁹.

The second issue has to do with the nature of the goal. Rather than focusing on efficiency, you might claim that the goal of economic policy is to foster people’s freedom to choose how to conduct their lives (Sen 1993; 1999) or “the continuity of human life and the noninvidious re-creation of community through the instrumental use of knowledge.” (Tool 2001: 293). In this case, the human right to health becomes a sub-goal and an issue in itself, so that the relation between TRIPs and the AIDS pandemic must be included in the inquiry quite independently of the public good issue.

This second issue inevitably involves a moral value judgment – what are the goals - which feeds back on how the inquiry must be framed: the moral value judgment entails a cognitive value judgment. The first issue outlined, in turn, is somewhat different in that it may appear to be strictly

¹⁸Indeed, the Human Development Index (<http://hdr.undp.org/en/statistics/hdi/>) includes it as a major determinant of the standard of living, and one need not be Keynesian to associate it to employment.

¹⁹I will presently explain why this is not a matter of technically correct vs. mistaken inquiry but one of value judgments.

technical: if you neglect some type of interaction – between TRIPs and health - you simply get a wrong outcome, with regard to the relation between TRIPs and output. This is true only to some extent. Consider the present financial turbulence associated to interest rate spreads. It can be accounted for by focusing on the different public – or maybe foreign – debt-income ratios in countries that forsook their monetary sovereignty. This approach, however, may be considered a special aspect of a more general issue: the speculative opportunities granted to financial institutions by ‘deregulated’ markets. But, again, this issue may be deemed only an aspect of the recent transformation of our economy into a money manager capitalism. What happens, in this example, is that each subsequent approach may be conceived of as encompassing the former. The three perspectives need not be inconsistent – and they might also have the same predictive power - but they do differ in terms of what the key issues are: in our example, emphasis is on the debt-income ratio, financial regulation and the relation between financial and non financial industries respectively. Framing an inquiry involves deciding what variables you may act on, what variables you cannot act on and what never changes and may be left in the background. Whatever your choice, a cognitive value judgment is inevitable.

Economists who choose GDP as a commonly shared policy goal may disagree on how important it is relative to other goals but they must share the moral value judgment that GDP is important. They must also trust that GDP can be dealt with independently of other non-shared policy concerns, otherwise the common ground would be undermined. In other terms, they must formulate one of three possible assumptions: that the economic well-being achieved through income growth is the only relevant well-being a society should be concerned with; that it is independent of other types of economic and non-economic well-being; that if it is not independent, some common metric may allow to deal with these issues not strictly related to growth, e.g. through internalization – as in the New Institutional tradition - or through compensation, as in the Kaldor-Hicks efficiency criterion. In sum, by framing policy this way, they are formulating a very specific cognitive value judgment whereby all socially relevant issues either are independent of income growth or can be expressed in terms of the same metric (money). What is at issue is not just that they assume exactly the opposite of what our discussion of social costs contends. The key point is that, in their attempt to simplify matters and bypass value judgments, they only occult them²⁰. In many cases this may lead to a ‘wrong’ theory, one that is unable to account for what happens. What is most important, however, is that the neglect of issues that should be taken into account simply misses the point. Even if it were able to explain some phenomena accurately, the theory would nonetheless be focusing on less relevant ones. In other terms, the answer might well be correct but relative to an inappropriate question.

What the discussion above suggests is that there may be a misconceived view of scientific dialogue and intellectual tolerance. By seeking – and accepting – a common ground for dialogue it is easy that formalism may prevail over substance. A shared goal such as income growth may allow for diversity of views concerning the most appropriate measures to be taken. The pursuit of such a goal may therefore be consistent with a variety of technical issues as well as of moral value judgments. This apparently ‘open’ approach to different views is subject to the (implicit) agreement that other issues – those that are not shared - can be left aside, which is a very important – if tacit - cognitive value judgment. The formalistic respect of dialogue restricts the very nature of that dialogue in a surreptitious manner.

The implication of the above considerations is not that we should forsake scientific dialogue but that we should ground it on substantial rather than formalistic issues: what goals are deemed important is not just a matter of different (moral) value judgments which can be left aside while focusing on technical details. The depiction of relevant goals begs for a discussion of what the appropriate cognitive value judgments are²¹. It requires a broader view of intellectual dialogue and tolerance, one that acknowledges the multi-tier nature of the issues to be discussed.

²⁰A theory that assumes away non shared policy concerns lays emphasis on the shared ones. In so doing “[it] favours the recognition of emergent phenomena . . . of the ‘more-of-the-same’ type . . . in detriment of the recognition of phenomena related to persistent unresolved social problems . . . [which] remain unresolved precisely because of the restraining effects of the starting social assumptions made.” (Sotolongo 2004: 61).

²¹See Taylor (1993) for a critique of the claim that it is not possible to discuss value judgments.

7 Conclusions

The paper raised the issue why economists who are progressive in a broad sense do not put social costs on center stage. It discussed a range of possible explanations and it pointed out that the question becomes particularly problematic when economists acknowledge the systemic openness of the economy. As long as a conventional approach to economics prevails, social costs are viewed in relation to what are assumed to be the (given) goals of the economy. When an open systems view is adopted, the key question turns out to be precisely what the goals of the economy are or, better said, what goals society wishes to pursue through the economy.

Openness relates to what actually occurs to the economy, to society and to the natural environment as a result of the interaction among these interdependent systems. It also relates to how these systems are perceived and understood, as a result both of their interdependence and of the interdependent learning processes they lead to.

Economists, much like other people, suffer the consequences of these cognitive problems, so they too may be unable to adequately appreciate what social issues are relevant. Their neglect of social costs may depend on another aspect of cognition, however, which relates to the way they investigate the economy. From the perspective of economic inquiry, openness involves not only that moral value judgments – concerns for the social consequences that the economy has on society – are important. It is just as necessary to formulate cognitive value judgments, which relate to the best way to frame and carry out economic inquiry. A misguided fear of “relativism” – basically on the grounds that value judgments preclude intellectual dialogue, hence scientific scrutiny - leads many economists to avoid these conclusions. Consequently, they exclude from their inquiries precisely topics such as social costs. While the quest for common theoretical grounds among different approaches may undoubtedly allow for a better understanding of specific issues, it often deters attention from the key questions that the quest for a better quality of life raises. It accounts for the inability to cope in an adequate manner with issues that transcend, and possibly trespass, the conventional boundaries between what is economic and what is not.

This leads us to a major conclusion. Since so many conventional economists cling to their theories and modes of thought, despite the present dramatic crisis and its social consequences, it is important that heterodox economists point out the shortcomings in the conventional approach. What is worth focusing on, however, is which shortcomings should be emphasized. Although it is important to stress the internal inconsistency of conventional theories and their implausibility with regard to the real world, the discussion in this paper suggests that we should focus less on the answers the conventional approach provides – its theories and how they are devised – and more on the questions we should be asking: what are the relevant issues that society needs to address. This different emphasis – which obviously draws on Myrdal²² would probably allow progressive – i.e. socially minded – economists to ponder on the inconsistency between what they would wish to achieve according to their general, if rough, overall view of the world and what the restrictive theoretical approaches they resort to allow them to pursue. I leave it to further discussion whether such an emphasis would not provide an appropriate common ground for progressive heterodox economists and a greater homogeneity and mutual consistency in their theoretical approaches.

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²² “Questions must be asked before answers can be obtained and, in order to make sense, the questions must be part of a logically co-ordinated attempt to understand social reality as a whole. A non-theoretical approach is, in strict logic, unthinkable.” (Myrdal 1998/1958: 233; see also Paul Streeten’s Introduction to the book and Myrdal 1953, 1978).

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