

## Social costs and normative economics

*P. Ramazzotti*

### Abstract

The aim of the paper is to assess the notion of social costs from an evolutionary institutionalist perspective. It argues that: social costs can be defined as the difference between the actual outcome of a historically defined capitalist market economy and the outcome desired by the members of society; markets are only one of the possible coordinating instances in such economies, albeit the prevalent one, the others including non-profit organizations, the welfare state, households, etc.; under these circumstances, the assessment and organization of economic activities requires a meta-coordinating instance; the extension of capabilities, as theorized by Amartya Sen, may provide such an instance. The paper begins with a brief discussion of the themes of, and problems related to, the conventional theory of social costs. It then specifies the context of the discussion by situating it in a historically defined economy: a capitalist market one. It contends that the rationale of such an economy involves treating labor, nature and money as "fictitious commodities", and that the existence of social costs ultimately depends on this central feature. Based on this approach, it discusses Kapp's suggestion that policy should focus on minimal social requirements. It points out, in this respect, that a broader criterion is required. Drawing on Sen, the paper stresses that choices cannot be reduced to a single dimension - such as (economic) welfare - and that the economic context may preclude the freedom to choose how to conduct one's life. The implication is a qualification of social costs: they are determined by economic activities that prevent people from achieving the capabilities they need. The public policy implications of the above approach are that many alternatives to the status quo are possible. In the light of these features, the discussion reasserts the need for a normative approach to economic inquiry.

*Paolo Ramazzotti*, Università degli Studi di Macerata.  
E-mail: ramazzotti@unimc.it.

A preliminary version of this paper was presented at recent EAEPE, STOREP and AISSEC Conferences. I wish to thank all the participants who commented on it. I also wish to thank Michele Cangiani, Wolfram Elsner, Vinicio Guidi and Pietro Frigato for their comments. The usual disclaimer applies.