
Economics, Ethics, and Environmental Policy

Contested Choices

EDITED BY

**Daniel W. Bromley
and
Jouni Paavola**

Blackwell Publishing

ECONOMICS, ETHICS, AND
ENVIRONMENTAL POLICY

"This collection of essays, deeply informed in economic theory and in ethical analysis, provides the best current exploration of the intellectual hinterland between them. The authors, both philosophers and economists, fully understand each other's positions and objections, and so this volume takes a giant step in clarifying and resolving disagreements that have long vexed environmental policy making." *Mark Sagoff, University of Maryland*

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Editorial Offices:
108 Cowley Road, Oxford OX4 1JF, UK
Tel: +44 (0)1865 791100
350 Main Street, Malden, MA 02148-5018, USA
Tel: +1 781 388 8250

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Contributors

Daniel W. Bromley is Anderson–Bascom Professor of Applied Economics at the Department of Agricultural and Applied Economics at the University of Wisconsin–Madison, USA.

Nick Hanley is a professor at the Economics Department of the University of Glasgow, UK.

Juha Hiedanpää is a researcher at the Satakunta Environmental Research Centre of the University of Turku, Finland.

Alan Holland is a Professor of Applied Philosophy at the Institute for Environment, Philosophy and Public Policy at Lancaster University, UK.

Olof Johansson-Stenman is an associate professor at the Department of Economics of Göteborg University, Sweden.

Nick Johnstone is an administrator at the National Policies Division of the Environment Directorate of OECD in Paris, France.

Munguti Katui-Katua is the Director of Community Management and Training Services (East Africa), Nairobi, Kenya.

Andreas Kontoleon is a doctoral candidate at the Department of Economics of University College London, UK.

Mark Mujwajuzi is a professor at the Institute of Resource Assessment, University of Dar es Salaam, Tanzania.

Bryan Norton is a professor at the School of Public Policy at the Georgia Institute of Technology, USA.

Martin O'Connor is Professor in Economic Science at the University of Versailles St-Quentin-en-Yvelines, France.

Jouni Paavola is a Senior Research Associate at the Centre for Social and Economic Research on the Global Environment (CSERGE) at the University of East Anglia and an Associate Fellow of the Oxford Centre for the Environment, Ethics, and Society (OCEES), Mansfield College, Oxford, UK.

Ina Porras is a visiting researcher at the Environmental Economics Programme, International Institute of Environment and Environment (IIED), London, UK.

Alan Randall is a professor at the Department of Agricultural, Environmental, and Development Economics at Ohio State University, USA.

A. Allan Schmid is University Distinguished Professor at the Department of Agricultural Economics at Michigan State University, USA.

Jason F. Shogren is Stroock Distinguished Professor of Natural Resource Conservation and Management at the Department of Economics and Finance at the University of Wyoming, USA.

Clive L. Spash is Research Professor of Environmental and Rural Economics at the Department of Agriculture and Forestry, University of Aberdeen, UK.

Timothy Swanson is a professor at the Department of Economics at University College London, UK.

John Thompson is the director of the Sustainable Agriculture and Rural Livelihoods Programme, International Institute of Environment and Environment (IIED), London, UK.

James Tumwine is a senior lecturer at the Department of Paediatrics and Child Health, Makerere Medical School, Kampala, Uganda.

Arild Vatn is a professor at the Department of Economics and Social Sciences at the Agricultural University of Norway.

Bhaskar Vira is a lecturer in the Department of Geography at the University of Cambridge, UK.

Elizabeth Wood is a research associate at the Environmental Economics Programme, International Institute of Environment and Environment (IIED), London, UK.

Preface and Acknowledgments

This volume brings together contributions from North American and European philosophers and economists who are interested in the ethical questions related to applying economic analysis to environmental issues. The theme of our volume is perhaps more pertinent today than ever before. The credibility of policy-makers and economists seems to have achieved a new low amidst the protests against the world trade system, the slow progress of international negotiations on the mitigation of climate change, and public health and environmental concerns related to mad cow disease and genetically modified organisms. We hope that this volume adds new insights into the proper role of economic analysis in these and other matters of public policy.

In the course of producing this volume we have become indebted to a number of people and organizations, to whom our expressions of gratitude are owed. First and foremost, we want to express our deep appreciation to Christopher and Anne Johnson. Their financial donation in the memory of their nephew William Robbins, grandson of the distinguished economist Lord Lionel Robbins, made it possible for the contributors to this volume to convene in Oxford at the William Robbins Memorial Seminar on Economics, Ethics and the Environment. The workshop took place at Mansfield College, Oxford, in March 2000. We also thank Christopher and Anne Johnson, Richard and Brenda Robbins, and Robert Nurick for their participation and many valuable contributions during the workshop. Thanks go also to the European Union's Environment Directorate General for its financial support to our workshop and the editing of this volume.

We also want to thank the "policy practitioners" who made such valuable contributions during the Workshop. They challenged us to think beyond the narrow academic confines of such familiarity to the rest of us. These individuals included: J. Clarence Davies from Resources for the Future in Washington, DC; Henry Derwent, Bob Dinwiddy, and Dinah Nichols from the UK Department of the Environment, Transport and the Regions; and Norman Glass from the UK Treasury. We sincerely hope we have been able to reciprocate their invaluable contributions to this volume by addressing at least some of the difficult issues they face as practitioners of – and participants in – environmental policy. We also present our sincere thanks to Neil Summerton, Director of OCEES and former Under-Secretary at the UK Department of the Environment, who perhaps better than anybody else could switch between the hats of an academic and a policy-maker.

Daniel W. Bromley
Jouni Paavola
April 2001

PART /

Introduction

Contested Choices

Jouni Paavola and Daniel W. Bromley

We offer this volume in response to a growing unease with the way in which many economists – and the policy-makers informed by economic writings on environmental policy – address environmental issues. Occasionally, this dissatisfaction erupts into widely publicized media events. We have in mind here the aggressive demonstrations at the meeting of the World Trade Organization in Seattle in late 1999. These protests were aimed at the emerging regime of global trade, regarded by most economists as welfare-enhancing and thus inherently desirable. In France, there have been demonstrations against increased globalization epitomized by “le fast food.” The concern there centers on the view that globalization threatens not only French livelihoods but also the broader cultural values of the French. Finally, demonstrations in The Hague during the latest international climate change policy negotiations directly challenged many economists’ favored means – marketable pollution permits – of curbing greenhouse gas emissions.

These and other international media events have had their national counterparts. In the United Kingdom, the disposal of the Brent Spar oil drilling rig, and the use of genetically modified organisms, have been among the most provocative issues during the past decade. In Finland, discontent with intensive forest management practices, and weak protection of old-growth forests, have often turned environmental activists into tree-dwellers. In India, farmers have protested and burned genetically engineered crops. More recently, Germany, France, Italy, and Spain have been swept by anxiety over mad cow disease, in yet another demonstration that normal methods of risk assessment – a central feature of environmental economics – are not seen as legitimate by a large share of the general population.

Behind these highly visible media events, various environmental organizations, other activist groups – and indeed ordinary citizens – regularly engage in political action at the local, national, and international levels. These groups often advocate policy choices substantially at odds with the prescriptions of economists. They also oppose projects that have been deemed desirable by economists

and/or policy-makers. The terms often used in this context, such as “NIMBY” (Not In My Back Yard) and “LULU” (Locally Unwanted Land Uses) capture but a part of the phenomenon, and certainly do not help us understand what is really going on.

So, *what is going on?* Are fundamentally sound economic prescriptions – and implied policy choices – being questioned by badly informed and misguided zealots who would otherwise readily accept the received wisdom if only they were able to understand the logic and rationale behind economic analysis and the collective choices prescribed by it? Should policy-makers simply ignore these protests? Or do standard economic approaches to collective action really have it wrong? Would public policy be less contentious if those in positions of authority simply ignored economics as a guide to policy-making on environmental (and perhaps other) issues? That is, should policy-makers ignore economists?

In this volume we hope to move beyond these simplistic questions. At the same time, we do believe that economists and policy-makers should take seriously the discontent with economic analysis and policy prescriptions – as well as with the collective choices informed by them. Ironically, when it concerns individual choice, economists are pleased to assume sound reasoning on the part of individual agents whom we vest with limitless cognitive capacities and perfect knowledge. But then economists often discredit their concerns in the face of our prescriptions when it comes to collective action. Can our inconsistency be laid solely at the feet of strategic behavior – and free riding – on the part of the citizenry when collective action is under consideration? There must be something else at work here.

We believe, in other words, that there remains much to learn about the logic of collective action that cannot be explained by traditional approaches to public policy. That is, rather than dismissing these environmental conflicts as the inevitable result of a citizenry insufficiently exposed to the impeccable logic and rigor of contemporary economics, we hope to demonstrate in these various contributions that there is something to be learned from collective expressions of concern and discontent over environmental conflicts. We will also suggest that trying to understand what goes on in the policy process provides fertile ground for future research at the intersection of economics and ethics. Indeed, we regard this volume as an important first step in the growing interest in work where philosophy and economics meet.

The reader will notice that many of the contributions here offer somewhat critical views of contemporary environmental economics. Yet, at another level, this volume presents a strong defense of environmental economics. We firmly believe that research at the intersection of environmental economics and ethics can improve the understanding of policy problems and choices. We also believe that this research can be helpful for policy-making on environmental and other issues. The kind of economics we envision may not be helpful in the conventional sense of identifying uniquely optimal solutions – a role that economics has never been able to perform (because it is impossible). We do believe, however, that the modified economic program we are striving for here can help interest groups involved in collective choices to revise their expectations, to respect

different viewpoints about policy matters, and to facilitate the design of institutional arrangements that implement and realize agreed-upon collective choices.

Next, we will identify and briefly discuss those areas of environmental economics that seem to be most frequently contested, in order to provide a context for the contributions of this volume. The contributions will then be briefly described.

Criticisms of Environmental Economics

Three closely related but yet distinct practices are often contested when policy-makers seek to employ economics as a guide in making environmental policy choices. The first contested practice is the exclusive use of *welfare criteria* for analyzing and making choices concerning policies and projects that have environmental impacts. Second, *monetary valuation* of the environment by the use of contingent valuation methods (and other valuation methods) has encountered sharp criticism, just as it has become increasingly popular among environmental economists and policy-makers. Finally, the *discounting* of future benefits and costs when conducting benefit–cost analysis has remained a durable subject of criticism from environmentalists and others. In what follows, we will briefly address each contested area in greater detail.

Welfarism

The broadest and perhaps the most fundamental criticism of contemporary environmental economics is a response to its philosophical foundations. Environmental economics is founded upon a worldview in which independent and all-knowing individuals act upon their exclusively welfare-centered motivations. Therefore, the policy prescriptions of environmental economists seek to implement and realize the worldview contained in their assumptions. The anthropocentric, welfarist, and egoistic dimensions of environmental economics surface in different ways in contemporary policy debates and practices.

The conventional assumptions of environmental economics sometimes result in an insistence to set welfare-maximizing goals for environmental policy (see Palmer, Oates, and Portney, 1995; Arrow et al., 1996). A standard example is the idea of a socially optimal level of environmental harm – the level of an environmentally harmful activity at which the marginal (abatement) cost of reducing the harm equals the marginal benefit from the improvement of environmental quality. Economists will insist that this is the welfare-maximizing level of pollution or other environmental harm. One example of taking this suggestion seriously was the practice in the US under the Reagan Administration (1977–85) of requiring benefit–cost analyses of all new regulatory initiatives. The requirement of positive welfare consequences is also frequently evoked in other contexts, including in the decision-making in the courts and administrative agencies. Sometimes the requirement translates into formal benefit–cost analyses, and at other times into a more general balancing of the costs and benefits of suggested policies.

It often appears less controversial to suggest policy approaches that accomplish particular policy goals at the lowest cost, but also here we encounter problems. In practice, these suggestions translate into advocacy for pollution permit trading systems and other policy instruments based on market incentives. A parallel line of reasoning in the area of risk policy draws attention to the marginal costs of reducing different risks. This line of reasoning calls for addressing first those risks that are the least expensive to mitigate. It may also suggest that we should allocate risks, including environmental risks, to the parties that can avoid them with the lowest possible costs (Calabresi, 1970). However, the choice of a policy instrument to meet a given policy goal is not free of ethical problems. The choice frequently involves difficult issues related to the way different instruments structure the relationships between different groups of people, and distribute the costs and benefits of a policy between them. For example, the popular discontent with trading systems to a large degree relates to the way they distribute benefits and costs between the public and the polluters.

There are good reasons to be wary of suggestions to use welfare criteria as a guideline in policy and project choices. First, and perhaps most fundamentally, there is no reason why some notion of individual or social welfare should be considered decisive by all agents when policy choices are made. Sometimes we do – or arguably should be able to – regard the welfare of other humans (or nonhumans) as more important than our own welfare (or even some hypothetical notion of social welfare). At other times, even these other-regarding consequentialist motivations may not be decisive: we may want to behave in a way that preserves or heightens our self-respect, and we may have firm ideas about what it means to be honorable or virtuous. The advocacy of welfarism as an exclusive guide for policy choices suggests that we should simply ignore these other concerns and their advocates as irrational when making collective choices. Yet a number of individuals may have these concerns and rightly feel insulted when they are silenced on the basis of *a priori* judgments from economics. Several scholars have also warned that the conceptualization of collective choices as exercises in welfare maximization may tend to socialize individuals to act increasingly as welfare-maximizers and to advance further commodification of the realms that are important for human life and well-being – an unwelcome prospect in their eyes (Radin, 1996; Hodgson, 1997).

One consequence of the reality of plural motivations is that policy problems are viewed differently by different groups of people, and also *vis-à-vis* other policy problems. There may indeed be policy problems that are viewed from a welfarist viewpoint by a great majority of people. Welfarism may thus not be a controversial guide to policy choices related to these problems. Yet there are many other problems that are not so viewed. Risks provide perhaps the best illustration here. Individuals may knowingly and voluntarily accept certain risks, such as those associated with driving a car or mountaineering, while rejecting involuntary exposure to smaller risks related to occupational and environmental health. They also may have different attitudes toward old and new risks (Huber, 1983), usually feeling a need for a greater degree of protection against new risks. Thus the debate about mitigating the risks of driving or flying may be quite