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Differences between neoclassical and institutional economists cannot be described in terms of black and white. Rather, we must address their divergent approaches, i.e., the reductionist-mechanistic tendencies of neoclassical economists, and the holistic-evolutionary tendencies of the institutionalists. Neoclassical economists tend to believe in very clear boundaries between economics and other disciplines, and between the various fields of economics. For example, environmental economists are expected to take care of environmental problems and policies, while other economists can continue in their detached fields of study. In addition, an example of neoclassical reductionism is the rendering of all practical economic analysis in monetary terms. Mainstream neoclassical economics was not developed to deal with environmental problems. It therefore seems reasonable to consider alternatives to the neoclassical paradigm when facing a new category of problems.

Holistic and Evolutionary Economics

Institutional economics emphasizes a holistic or inclusionist approach to economic policy making. The different disciplines are seen as overlapping, rather than as distinct and separated by clearly delineated boundaries, and scholars are expected to try to achieve a balance between specialized knowledge and knowledge at a holistic, interdisciplinary level. Thinking in environmental terms should then permeate all sub-fields of economics and all policy areas. In addition, institutional economists have a preference for evolutionary thinking, i.e., an interest in how technology, institutions, habits, values and the economy at large evolve through time. Institutionalists also prefer models that are open ended or only partially closed.

Institutional economics focuses both on actors - their world view, habits, etc. - and on institutional arrangements, i.e., the organizations, rules of the game, power relationships, entitlements and other types of control over resources. Whereas neoclassicists take institutions (and technology) for granted, institutionalists treat them as crucial variables and are ready to question current institutional arrangements. For example, they see all commodity prices on national and international markets as being contingent upon the prevalent institutional structure; depending upon the value perspective, these may or may not be regarded as reasonable. The market, then, is just one relevant institution among many, a part of the structure of rules governing social and economic outcomes, which happens to be a useful decentralizing mechanism. Institutionalists do not, however, evince the enthusiasm shown by neoclassicists for the market as a problem solver.

A Strategy of Disaggregation

The history of natural resource and other environmental deterioration indicates that something is wrong with the objectives, decision-making methodologies, and accounting practices that mainstream economists have developed and upon which society has relied. Reliance upon standard economic policy instruments does not seem to be enough in view of the many failures that have occurred and the difficulties ahead. Attempts to modify measures of GNP by adding components that are judged valuable and subtracting others that are judged environmentally harmful may improve things somewhat, but it will not eliminate the dogma of thinking in terms of money values. This dogma must instead be replaced by a strategy of disaggregation, whereby monetary and non-monetary impacts are kept separate.

In addition, a distinction must be made with respect to resources and pollutants between flows over periods of time and positions at a point in time. For example, the reduction of mercury effluence into a lake may decline (an improvement in pollution flow), but stocks of mercury in fish may continue to increase (a deterioration in position). None of this can adequately be aggregated in monetary terms and thus cannot be fruitfully used (e.g., in cost benefit analysis) to inform the decision-making process. Impacts of different kinds, impacts relating to different interests, and dynamic impacts over time should all be disaggregated and considered separately.

Sustainability as Ecological Ethics

Neoclassical economics tends to support and legitimize a view of progress that is limited to the traditional indicators of growth: balance of payments, inflation, etc. Sustainable development has evolved as an alternative concept of progress. One problem with this term is that each scholar can choose a definition for it that fits into his or her pre-established world view. We need instead to be able to determine whether a specific development trend will lead to degradation or improvement in the state of the environment. The following set of principles is formulated to guide decision making concerning energy, transportation, forest projects, etc.:

1) Alternatives that involve irreversible environmental degradation within the region should be avoided.

2) Alternatives that involve irreversible environmental degradation in other regions or globally should be avoided.

3) A philosophy of cautiousness should prevail in situations of uncertainty with regard to environmental impacts.

4) When possible, environmentally positive or neutral alternatives should be chosen. If no such ready alternative exists, then a search should be initiated to find new alternatives in terms of different technology, new rules, reconsideration of life styles, etc.

These imperatives are deliberately limited to environmental impacts and therefore do not represent a complete ideological standpoint. Formulating environmental ethics represents an

effort to extend the ideological options available for politicians and other citizens. Specific activities may be scrutinized with respect to the above ethics, and traditional GNP-based measures of success may be questioned on the grounds of environmental degradation. Economic growth strategies and expansion of international trade, commonly accepted by most political leaders, may also be questioned on the grounds that they underrate community sustainability and diversity. Public choice theory, based on the assumption of group self-interest, can also be challenged by a view of political actors with complex motives, including moral considerations. This in turn may lead to a more optimistic view of the possibilities for sustainable development.