"Summary of article by E.K. Hunt and Ralph C. D'Arge: On Lemmings and Other Acquisitive Animals: Propositions on Consumption" in Frontier Issues in Economic Thought, Volume 3: Human Well-Being and Economic Goals. Island Press: Washington DC, 1997. pp. 135-137

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Orthodox neoclassical economics rests on a mechanistic worldview, and assumes that atomistic individual behavior is governed by immutable laws of motion. Many alternative approaches to economics are based on a different, contextual worldview, and assume that human behavior consists of complex processes and events, connected to other people and things by intricate systems of relationships. This article argues that the difference between the two perspectives is particularly important for understanding the effects of externalities, and that only the alternative, contextual perspective can make sense of a world in which externalities are ubiquitous.

THE NEOCLASSICAL AND CONTEXTUALIST FRAMEWORKS CONTRASTED

The mechanistic worldview, as embodied for example in Newtonian physics, assumes that all movement can be seen as a series of equilibria, governed by a system of natural laws. Such a system is deterministic: all that is needed is a description of its state at any point in time, and of the forces operating on it, in order to predict its development throughout all future times.

This perspective dominated early inquiries into social as well as natural sciences. Adam Smith substituted "self-interest" for Newton's law of gravity; in economic life, the invisible hand of the market would harmonize individual actions and lead to an optimal allocation of resources. The later development of neoclassical economics rests to a remarkable degree on this simple assertion, however intricate its modern mathematical expressions have become.

The assumptions underlying neoclassical economics are seldom made fully explicit. The current socioeconomic structure is accepted without question, as setting the boundaries for economic analysis. Social harmony is assumed, and irreconcilable conflicts of interest are assumed to be impossible. Differences between individuals disappear; they become simply homogeneous, utility-maximizing abstractions with given, unspecified preferences. The government has a shadowy existence, vanishing when competitive equilibrium prevails, but appearing when externalities arise to restore the system to a state of bliss.

While mechanism focuses on machine-like functioning of individuals and systems, the contextualist framework takes as its paradigm the "historical event." Reality, as people experience it, is not atomistic and quantitative; it consists of many linked processes involving diverse human activities, which have connections to past and future events, as well as relationships to other individuals and resources in the present. Synergism between activities, which is exceptional (and mathematically inconvenient) in orthodox economics, appears typical or normal in a contextualist framework.

EXTERNALITIES IN NEOCLASSICAL THEORY

The traditional neoclassical approach first assumes that competitive equilibrium and Pareto optimality exist everywhere, and then adds the assumption of a single externality. The policy response is either to introduce a tax that restores optimality, or in more recent variants, to establish a "market for the right to pollute" and then let the invisible hand solve the problem.
For this theory, "The criticial coup de grace ... comes when one realizes that externalities are totally pervasive. Most of the millions of acts of consumption (and production) in which we daily engage involve externalities." [345] Almost every human activity has some nonmarket effects, positive or negative, on other people's welfare. The benefits of participation in society are a reciprocal positive externality; thus externalities are a normal, inherent part of social life, not isolated or exceptional occurrences.

Consider the implications of the neoclassical model of unrestrained, self-interested competition in a world full of actual and potential externalities. Since there are limits to what can be accomplished within the marketplace, competitive individuals will seek to maximize their gains from nonmarket transactions. Many nonmarket transactions have a zero-sum character, where one person's gain is another's loss; maximizing one's gains from such transactions implies maximizing the negative externalities experienced by others. With many opportunities to create negative externalities for others, each individual will select those with maximum value, i.e. maximizing the negative externalities for the rest of society.

In fact, the problem suggests a paraphrase of Adam Smith's famous presentation of the "invisible hand" metaphor:

> Every individual necessarily labours to render the external costs of the society as great as he can. He generally, indeed, neither intends to promote the public misery nor knows how he is promoting it. He intends only his own gain, and he is in this, as in many other cases, led by an Invisible Foot to promote an end which was no part of his intention. ... By pursuing his own interest he frequently promotes social misery more effectually than when he really intends to promote it. [348-49, italics in original]

Neither taxes to eliminate externalities, nor the development of legal rights to allow market transactions, can possibly correct all the myriad externalities that arise; instead it is necessary to address the underlying incentive structure of the competitive system.

In modern developed societies, consumption is not about actual needs or amenities. Rather, it is a competitive activity, spurred by the unending desire to catch up with, keep ahead of, or protect ourselves from, others we encounter. The external diseconomies from such interactions have swamped the earlier external economies of participation in society; the result is a change in incentive structures that manifests itself in our patterns of consumption.

CONCLUSION

A contextualist analysis starts by recognizing that both consumption and production are inherently social activities. The source of externalities is the fact that, whereas costs and benefits of economic activity are both social, property laws give particular individuals most of the benefits but a much smaller part of the costs. Moreover, quantitative growth leads to qualitative change in the kinds of costs imposed on society by additional consumption; totally new kinds of costs arise, some of which may involve irreversible damages.

Finally, government is not a neutral deus ex machina devoted to perfecting the competitive equilibrium. The government enforces private property rights, which are one of the most important sources of externalities. Satisfactory solutions to the problem of externalities may necessitate sweeping changes in property rights -- but there may be no alternative if a sustainable society is to survive.