

Volume Introduction

by Neva R. Goodwin

[A]n economic system is not only an institutional device for satisfying existing wants and needs but a way of creating and fashioning wants in the future. How men work together now to satisfy their present desires affects the desires they will have later on, the kind of persons they will be. These matters are, of course, perfectly obvious and have always been recognized. They were stressed by economists as different as Marshall and Marx. Since economic arrangements have these effects, and indeed must do so, the choice of these institutions involves some view of human good and of the design of institutions to realize it. This choice must, therefore, be made on moral and political as well as on economic grounds. Consideration of efficiency are but one basis of decisions and often relatively minor at that.

– John Rawls¹

The Questions We Address

This book, the third volume in the *Frontier Issues in Economic Thought* series is designed to provide ready access to those writings about human well-being that are most relevant to economic realities and economic theory. The writings summarized here have been selected to shed light on the question:

What conceptions of human well-being are used—and what conceptions should be used – as a guide to the design and maintenance of economic systems and institutions?

The intention of the book is to assist in a reexamination of the implicit and explicit goals of economic theory, policy, and action.

What are these goals? They are not easy to discover: the mainstream of the economics profession has not encouraged—and may even be hostile to—a broad exploration of economic goals and their relationship to human well-being. The casual reader of economics textbooks or other expositions might be excused for concluding that efficiency is the primary goal and value for economists; but if that observation is stated, it will quickly be refuted by the contention that efficiency can never be a final goal—it is only a means to other ends.

What other ends? The most thoughtful answers are likely to cite human well-being as the ultimate goal of the activities studied and aided by all the social sciences. However, human wellbeing is a hard thing to define and to measure, and so the discourse of economics often slips into the easy alternative of holding up some measure of material wealth—its level and/or its growth—as final goals.

When the discussion is brought to this point, few would defend material wealth as a fully adequate proxy for human well-being. However, it has been difficult to bring to prominence, within the economics profession, the issues that are raised if we inquire: What if in some circumstances the intermediate, economic goals of growth and wealth do not lead to—even lead us away from—our final goals? How should we then change our economic behavior, and the economic theory that explains and supports that behavior?

In recent years, a spate of writings on these issues has emerged building on work from older traditions of considering “the good society.” There is also growing interest in questions of valuation—e.g., debates over treating nonmarket values as externalities, as well as attempts to evaluate the negative value of pollution and the positive value of the contributions of health and safety regulations to human life and health. And there is a lively public and (to some degree) academic debate over indicators that might be used as alternatives to GNP (gross national product) and GDP (gross domestic product).

This renewal of interest in the deeper meaning of economic success is encouraging, but it has not yet become ingrained in the profession. Meanwhile, it sometimes appears that even where Western, capitalist economies have succeeded in achieving the intermediate goals of increasing material wealth, they have done so at the expense of the underlying human values. Development policy, as it evolved since the second World War, has generally been geared to the achievement of a rather narrow set of goals almost exclusively focusing on the macroeconomic issues of growth of productive capacity along with growth in the output of marketed goods and services. In a 1930 essay, John Maynard Keynes anticipated the many-fold increases in labor productivity that have actually occurred, and assumed that the resultant prosperity would solve “the economic problem.”² In fact, among a large fraction of the human population—at least as many as the 1.6 billion who were on the planet at the start of the century—global wealth has not translated into the elimination of health-injuring poverty or soul-numbing drudgery. Indeed, rapid GDP growth is sometimes accompanied by increasing inequality and misery, while the environmental impacts of growth threaten reversals in the future—which will, again, fall most heavily on the poor. In rich countries inequalities have recently been widening, and even individuals at the upper end of the consumption pyramid do not seem to be achieving the happiness, self-respect, or serenity that some might cite as the purpose of material progress. Capitalism has emerged as the world’s triumphant economic system, but, as success comes tantalizingly in sight, there is an uneasy concern that something has gone wrong.

The hypothesis behind this book is that an important piece of what has gone wrong is to be found in the way we define and justify the economic goals we pursue, and that an essential part of the solution must be found in a reexamination of economic goals—starting with the definitions current within the economics profession. That hypothesis will be investigated in the articles summarized in this volume, and in the essays that introduce each part.

The “Frontier” Perspective

The comments made above reflect a position that should be spelled out, because it is basic to the selection of articles that go into each book in this series, as well as the way we have selected the topics for our six projected books.

The Frontier Issues in Economic Thought series by definition does not deeply explore positions that are centrally held in the core of the economic discipline. This is because the starting point for selection of our Frontier topics is the observation that there are subjects that should, because of their human importance, be central to a science, such as economics, that describes and prescribes a

significant range of human activities. However, among these humanly crucial topics are some that are not given core attention.

Among the important topics that have been marginalized in this way are the six that have, so far, been selected for this series. They are:

- Vol 1: *A Survey of Ecological Economics* (published 1996)
- Vol 2: *The Consumer Society* (published 1997)
- Vol 3: *Human Well-being and Economic Goals* (this volume)
- Vol 4: *The Changing Nature of Work*
- Vol 5: *Inequality and Market Power*
- Vol 6: *Fully Sustainable Development*

The fact that the *Frontiers* series has been designed to give a new emphasis to relatively neglected issues makes this, by definition, a somewhat unusual endeavor. Having chosen topics that lie outside of the mainstream, we have found (not surprisingly) that those who have thought much about our topics also tend to reject certain of the standard neoclassical positions. We do not know whether this rejection is the result of such thoughtfulness or whether the direction of causation runs the other way. Perhaps a predisposition not to believe in the standard worldview causes people to ask further questions about the relationships in question.

An insistence on recognizing the crucial role of values in economics turns out to be a common characteristic among all six volumes. Values serve as motivators and guides for economic behavior, and as bases for setting economic goals and for judging the success of economic policies. The idea that economic policies can be judged purely “positively” according to their contribution to efficiency merely pushes the normative issue back a step, for the choice of efficiency as a desideratum, and the definition of efficiency, are, again, value-laden. A leading reason for economists’ reluctance to recognize this is methodological: values are hard to define, identify, and analyze in a way that fits with what is thought of as “scientific.”

More generally, the core of economics has increasingly been filled with topics that are amenable to the methods and techniques that are popular in the field (i.e., those whose exercise is welcomed by the editors of leading economics journals and can assist young academic economists to promotion and tenure). Topics that are not amenable to the type of abstract modeling that has been favored in recent decades have been pushed to the margins of the field. But if it appears unscientific to abandon the most sophisticated available methods of analysis, it is even more so to ignore, for methodological convenience, crucial aspects of the content of one’s discipline.

It was interesting to discover, in researching Volume 1, *A Survey of Ecological Economics*, was that the young discipline of ecological economics is relatively bold in exploring value issues, even though the topic it most obviously adds to standard economics—the natural world—can, at least sometimes, be studied as a set of value-free objects. One fact with value-laden implications that emerged from Volume I had to do with long versus short views of time. As firms, individuals, or other economic actors adopt a longer time perspective, the likelihood grows that private interests will converge with the public interest in social and ecological health and well-being. (To give an example: a farmer acting on informed concern for the future will avoid excessive chemical

application, thereby preserving soil fertility and reducing downstream run-off.) It is especially important to build this fact, and its implications, into the core of economic theory.

To derive a subtler point that emerged from Volume 1 and led toward Volume 2, *The Consumer Society*, try the following test. Ask an environmentalist to enter into a thought experiment in which technological breakthroughs make possible, with no environmental harm, the use of virtually unlimited amounts of energy and materials. Then ask, Are you content to have society continue on its present high-consumption path? A common answer, No, will indicate something about the underlying reason for many people to participate in the environmental movement: it establishes a value system expressive of the feeling suggested earlier—that something has gone sour in the pursuit of what had been thought of as “progress.” Scenarios of a continued pursuit of material consumption as society’s highest goal are unappealing to many, even under imaginary circumstances where all the environmental problems are solved. A focus on environmental problems sometimes serves as the practical expression of a deeper malaise.

Volume 2, *The Consumer Society*, zeroed in on the evidence that, after the satisfaction of basic needs has been achieved, a generalized increase in consumption (the covert or open goal of most current economic discourse) adds little or nothing to human well-being. The exception is when it is declared to do so by definition, as when an article begins with some variant of the too-common statement, “since utility is unobservable, we will use consumption as a proxy for utility.” This finding left us with the question: if consumption is not the definition of utility, or well-being, that economists should use, what is?

So we come to the present book. Working on it has been extraordinarily exciting and challenging—even more challenging than the first two volumes, because the subject is less defined. In all of the Frontier books, one of the benefits to the reader is the fact that the selection of articles to summarize has been made on the basis of an unusually extensive literature search. The range over which we had to search in the first two books was at least relatively circumscribed. “Ecological Economics” is a new field with its own journal and a relatively small number of other outlets where much of the work in the area is appearing. “The Consumer Society” was a somewhat more amorphous topic, but still not so vast as “Human Well-being and Economic Goals.” Thus, both of the first two books were able to aim at comprehensiveness. While financial and human resources have limited us to surveying the literature that is printed in English and accessible in the United States, within this (regrettable) limitation we felt that we were making our selection out of a nearly complete set. We knew where to draw the limits of the topics, and we extended our search out to those limits.

Work on the present topic has required constant decision making, not only on the question, Which of these articles covering topic X will be most useful to Frontier readers? We have also faced, even more than with the other volumes, the questions, Should topic X be represented at all?, and if so, with what emphasis? Our ability to make these decisions was aided by extensive correspondences with a number of colleagues in a wide variety of disciplines. Yet we cannot pretend to be comprehensive, for virtually every discipline in the social sciences or the humanities has a full literature on some aspect of our topic. At the same time, the topic of Volume 3 in recent years has probably received even less attention as a defined subject than any of our other Frontier topics. Thus, even more than in the other volumes, we must offer selectivity as our strength.

Since *Human Well-being and Economic Goals* ranges so widely over other disciplines, it is perhaps necessary to offer one further disclaimer. It is not the purpose of the editors to colonize other disciplines or to expand the influence of economics. Instead, we hope to facilitate communication in many directions, across many boundaries. From the economics perspective, there is much to be learned, and this discipline stands to be enriched by shifting emphasis onto some areas that are now relatively neglected, even when these are subjects on which it is not fruitful to use the standard neoclassical tools and assumptions.

The Organization of this Volume

Much of the effort involved in producing this volume went into the process of selection and organization of material into the ten parts of this book.

Part I presents a sampling of introductions to the themes and perspectives that appear in contemporary discussion of economic well-being.

Because we are especially interested in the issue of how well-being should be understood for economic purposes, an obvious focus for this book is the relationship between “utility,” as conceived in economics, and the broader human concepts of “well-being” or “welfare.” Economists have been addressing these topics for at least 200 years. The discussion of utility, utilitarianism, and the “invisible hand” that continued through the 19th century is the subject of Part II.

The 19th century closed with the appearance of a new, seemingly more scientific and successful paradigm, namely neoclassical economic theory. More recent developments in welfare economics, social choice theory, and other approaches to well-being appear in Part III. The 20th century is closing on a note of dissension and disappointment of many earlier hopes for a theory of welfare, together with selected promising new insights.

Despite difficulties and complexities in the theory of welfare economics, there has been a steady growth in applications of the theory to practical problems, in the form of cost-benefit analyses and valuation of environmental and other externalities. Part IV takes up these issues, focusing on the question of which nonmarket values can be made commensurate with the “measuring rod of money”—and how society can take seriously those values that are not easily quantifiable.

Philosophers and economists are popularly supposed to take very different views of the world – a supposition that is by no means without basis. However, in recent years a number of bridges have been thrown over the gap between the two disciplines. In Parts V, VI and VII, we have collected work by authors from both side of the chasm (as well as from several other disciplines), starting, on the philosophers’ side, from the attempt to define what is “the good,” or “a good life;” on the economists’ side, from ideas of utility and the attempt to give it nontautological meaning via such notions as preference, efficiency, or freedom of choice.

We have sorted these bridging works into three levels. Part V presents efforts to deal with difficulties that have arisen in attempts to use information about individual preferences as a proxy for information about the individual good. Here the emphasis is on critiques of utility theory, along with some efforts to revise it into something more subtle and more comprehensive.

Another criticism of utility theory has stressed the fact that individuals, even in their economic roles, are not solitary Robinson Crusoes, but are generally best understood as participants in a network of social relationships. In Part VI we review work that emphasizes these linkages, especially with regard to ethical norms and citizenship. The point is made that economic efficiency, as well as other aspects of the quality of our lives, depends critically upon these linkages. We are asked to consider whether our approach to economic life, and the theory behind it, is actually corrosive of such social bonds.

Part VII moves to a more macro view of these issues, bringing into focus the social issues of justice, the objectives of egalitarianism, and the conflicts that arise, in the arenas of freedom and justice, between the rights of individuals and the health of society.

Another macro view is provided in Part VIII, where the question, What are the goals of economic activity? is featured in a consideration of the economic development of nations. This is looked at from two directions: one, the concept of development as applied to the third world; the other, reflections on the European style welfare state. Both approaches provide opportunities to consider the relationship between human well-being and the goals espoused by economic policy makers and by the political figures they advise.

For more than half a century the dominant measure of economic well-being on the macro level has been either GNP or GDP. These measures have recently come under sustained attack from a number of directions. This issue is central to the issue of how to bring economists, philosophers, sociologists, political commentators, and activists to a workable, common understanding of well-being—so much so that Part IX is devoted to critiques of existing methods (such as GNP/GDP) for evaluating the contribution of economic activity to human well-being, while Part X consists of a single essay that summarizes and compares eight different approaches to assessing the economic success of a nation.

In this volume of the Frontier series we have departed from our usual approach in two places. One is in the way we have dealt with alternatives to GNP. As just noted, Part X is not a collection of summaries, but, instead, a single essay providing an overview of the issues involved in devising and using something like a GDP figure. The other major departure is in our treatment of the work of the economist Amartya Sen (and, to some extent, that of the philosopher Martha Nussbaum, with whom much of Sen's use of the Aristotelian approach was developed).

Sen has written a very large number of articles that have built on one another and developed, over time, the still-evolving conception of capabilities and human functioning. As he prefers not to have his articles appear in summary form, it is fortunate that there exist several articles (one by Robert Sugden is summarized in Part VII; two more, by David Crocker, are summarized in Part VIII) that, together, cover about 15 of the critical papers in this corpus. By developing unusually long summaries of these secondary sources and writing a review essay of our own (for Part V), we have been able to cover this important topic much more effectively than would have been possible with summaries devoted to single articles.

Conclusion

The need for assistance from beyond the borders of economics is evident in the questions that have motivated the Frontier series. These embrace and extend the question cited initially as the starting point for the present book. Over all, the series asks:

- What is the purpose of the study of economics?
- Whom is economics intended to serve?
- What should be its subject matter?

These are clearly normative questions, in that the answers given will depend upon the values held. The group of economists and others who have worked on the Frontier series propose, as a starting point, the following answers (each of which requires further definition):

- Economics is studied in order to achieve better understanding of that part of human behavior which is associated with the production, distribution and consumption of goods and services. This, however, is only an intermediate goal.
- The deeper purpose for wishing to achieve such understanding is to help ensure that economic behavior contributes to general human wellbeing.
- The content of economic studies should include all subjects that bear on economic behavior, or on the interrelation of such behavior with issues of importance for human wellbeing.

For those who ask such questions, and who answer them as above, it is evident that the field of economics is not only of interest or concern to economists. Economic behavior affects how people interact with the natural world, impacts on a wide variety of human relationships, and creates the conditions within which some people feel successful and others are seen as failures. Of course, economic activity also performs the more obvious functions of producing needed and wanted (as well as unneeded and unwanted) goods and services; creating the jobs through which people may earn the income with which to buy these goods and services; and, through various mechanisms, distributing what has been produced. All of these functions are of great and immediate concern to virtually all people. Not all of them are equally well-represented within mainstream economics. The Frontier series aims to help correct this emphasis.

Notes

¹ John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971), 259-60.

² John Maynard Keynes, "Economic Possibilities for our Grandchildren," *Essays in Persuasion* (New York: Norton, 1963). Summarized in *The Consumer Society*, eds. Neva R. Goodwin, Frank Ackerman and David Kiron, Volume 2 of this series, *Frontier Issues in Economic Thought* (Washington, DC: Island Press, 1997), 343-5.

³ See the discussion, and footnotes 8 through 11, in the Overview Essay for Part I. See also the Overview Essay and summaries in Part V.