
What ‘Theory of Value’ for the Assessment of Social Projects?

Economic Pricing, Social Decision-Making and Ecological Valuation

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► Extended Abstract

The inquiry into the cause and the measure of the value of products of human activity – be they single elementary commodities (say, corn), composite accounting items (such as domestic output and aggregate investment) or complex artefacts (notably, large-scale infrastructures) – was the fundamental question underpinning the inception of modern economic thought. Leaving aside Aristotele’ and Thomas Aquinas’ theological (normative) reflections, the early attempts to set up a positive theory of value can be traced back to the pioneering works of a few scholars who lived across the Seventeenth and the Eighteenth centuries, notably, William Petty, Benjamin Franklin, and Richard Cantillon. However, it was Classical political economists, notably Adam Smith and David Ricardo, who provided a complete theory of value of commodities under a capitalist regime, where a free market of labour-force and private property (or control) of means of production are fully

developed. According to Smith and Ricardo, value is an “objective” feature of commodities and it is expressed by the cost or effort entailed by their production.¹ Thus, labour would be not only the *cause* of value, but also the natural *measure* of value, though, sometimes, modifying circumstances should be taken into account in the definition of the value in exchange.

The objective approach to value dominated studies in political economy until the 1870s, when it was replaced by the subjective theory of value developed by Marginalist economists. In fact, the reduction of the value of goods and services to subjective preferences (revealed by actual choices) of individuals still underpins mainstream economics. It stands at the basis of standard

¹ Under the label “objective”, we include all those theories according to which value is an objective feature of items (though it could be historically and socially determined), not the result of the subjective perception of individuals. We use such a broad category to encompass both Classical “production cost” approaches to value and ecological “intrinsic” approaches to value.

approaches to the assessment of social projects, including the well-known “cost-benefits analysis”.² However, there is an increasing concern of social appraisers and decision-makers about the possible misvaluation of economic, social and ecological net benefits of public projects (compared to the *status quo*) due to methodological biases in standard assessment practices. Thus, a growing demand has materialized for either an improvement in existing techniques of valuation or the development of new (alternative) methods of assessment of social projects. In this regard, it must be noticed that the development of a theory of value of both human artefacts and ecological goods is not an exclusive concern of economics. On the contrary, it is shared by other disciplines, such as environmental engineering, ecological economics and natural sciences. For instance, new concepts and analytical tools, such as ecological reversibility, systemic resilience and real options, have been developed, which could be employed both to estimate the economic value of social projects and to assess their broader impact on the ecosystem. Besides, a number of “objective” theories of value have been proposed since the 1960s explicitly aiming to question and replace utility-based approaches to value and evaluation. Although above theories are not free of criticisms, we

² We define as ‘social project’ an investment planned by a public institution to provide a certain community (or a specific social group within the community) with a set of goods and/or services. The composite definition “social CBA” is used to define the application of CBA to social projects or policies.

argue that could provide some useful insight for social project evaluation.

Yet, in the whole history of scientific thought, there is just a small number of authors who tried to bridge the gap between economics and other social and natural sciences, thereby overcoming disciplinary boundaries. Against this background, the aim of the paper is two-fold: first, to review critically utilitarian principles that underpin standard approaches to the assessment of social projects; and, second, to ascertain whether alternative or complementary theoretical foundations are possible. The purpose is to start structuring the methodological frame for a non-utilitarian way of assessing the impacts of social projects on economy, society and ecosystem. Accordingly, the paper is organised as follows. In section 1 and section 2, a brief outline is provided of the concept of “value” in the history of economic thought. Section 3 contains an overview of standard methods of assessment of social projects. The focus is on social cost-benefit analysis (CBA). In section 4, weaknesses and criticisms of the standard social CBA and other utility-based techniques are discussed. More precisely, we argue that standard “utilitarian” methods end up neglecting long-run impact of current decisions on society and ecosystem. For instance, in order to attach monetary values to impacts, it is usually assumed that tastes and preferences of individuals are “exogenously given” and steady over time. While this can be acceptable in the short run, it clearly sounds unrealistic in the long term. In fact, individual preferences are extremely volatile. By contrast, human society and

ecosystem services are expected to continue into the far future. Consequently, the concept of the “sovereignty of consumer” turns out to be an empty category when evaluating long-run effects of social projects. A different criterion of social optimality is, therefore, necessary. Similarly, many doubts have been raised about the practice of discounting future environmental benefits, as time preferences are likely to be negative or non-linear for many ecological goods and services. Therefore, in section 5 a first step is taken towards an interdisciplinary approach to social project assessment, aiming to overcome limits and biases of utilitarian practices of evaluation. This is done by looking at alternative concepts and methods, beyond the standard economics edge. As mentioned, the concepts of ecological reversibility, systemic resilience and real options are taken into consideration as fruitful analytical tools. In addition, some “dissenting” or “heterodox” theories of value are reviewed in sections 6 and 7. More precisely, pros and cons of Neoricardian theories of prices, ecological (or energy-based) theories of value, and biophysical pricing methods, respectively, are discussed. While recognising the appeal of above objective approaches, we argue that, unfortunately, they share one of the main issues affecting the utilitarian approach. For all of them end up collapsing every use-value dimension onto a single exchange-value dimension (be it individual utility, labour cost, or energy). Eventually, the need for a “normative” theory of valuation is advocated (in section 8), relying on the composite concept of ‘social and ecological use-values’. Further considerations are provided in section 9.

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