

John O'Neill

Preferences, Virtues, and Institutions

Abstract: Public choice theory presents itself as a new institutional economics that rectifies the failure of the neo-classical tradition to treat the institutional dimension of economics. It offers criticism of both neo-classical defenders of cost-benefit analysis and their environmental critics. Both assume the existence of benign political actors. While sharing some of its scepticism about this assumption, this paper argues that the public choice perspective is flawed. The old institutionalism of classical economics provides a better perspective to examine both explanatory and normative problems occasioned by environmental problems than does the new institutionalism, raising significant questions about the relationship between environmental goods, virtues and institutions which have been lost to recent discussion.

I.

The debate on neo-classical approaches to the environmental problems now follows well-worn paths. The proponent of neo-classical economic theory presents environmental problems as problems of 'market failure' – of negative externalities and public goods. Cost-benefit analysis is invoked in response to such problems. Cost-benefit analysis has traditionally entered the policy making arena as a solution to market failures. Market failures arise from the departure of real markets from their theoretical ideal counterparts which would deliver Pareto optimal outcomes. Cost-benefit analysis delivers the close Kaldor-Hicks cousin of Pareto optimality, potential Pareto optimality, by non-market means. Hence, given that environmental problems are problems of market failure, cost-benefit analysis is the appropriate response. Of special significance to environmental problems, it allows one to place a shadow price on environmental goods, preferences for which are not revealed in real markets (see Pearce/Markandya/Barbier 1979, 5ff.; Pearce/Turner 1990, 41).

The central line of criticism of this neo-classical approach has been on the very notion that environmental problems are simply problems of market failure, rather than ethical and political problems. In particular there has been powerful criticism of the treatment of preferences for environmental goods as consumer preferences which are open to being priced. Typical is Sagoff who distinguishes the preference an individual has as a consumer and those she has as a citizen. The former express a person's private wants, the latter her public values, her judgments about "what is right or good or appropriate in the circumstances" (Sagoff

1988, 9). The latter are not reducible to the former. They demand political and not 'economic' solutions. Thus goes the main lines of the existing debate and I have no intention of pursuing those lines and their ramifications further here (I discuss the debate in O'Neill 1993a). What I propose to do in this paper is to introduce two other discordant voices into the debate, those of the public choice theorist and the classical institutional economist.

The first voice, that of the public choice theorist, is already being increasingly heard.¹ It is both politically and theoretically important. Politically it represents one of the main lines of argument for free-market solutions to environmental problems. Theoretically it presents itself as an attempt from within the neo-classical paradigm to rigorously apply the axioms of neo-classical economics in all domains and in doing so to reject some of the standard assumptions that underlies traditional neo-classical welfare economics. Of particular significance here, it provides powerful criticism of *both* positions in the existing debate from a neo-classical perspective. Both cost-benefit analysis and its environmental critics make indefensible assumptions about political actors.

The public choice theorist is sceptical of the standard neo-classical justifications of cost-benefit analysis. They represent a failure to consistently and rigorously apply the axioms of neo-classical theory. Cost-benefit analysis is a tool employed by bureaucrats whose results serve the politicians in the justification of policies. The defender of cost-benefit analysis assumes that both bureaucrats and politicians are benevolent actors who aim at the general utility (see Olson 1965, 98). However, the public choice theorist maintains, that assumption cannot be sustained given the axioms that define the rational actor in neo-classical theory. The neo-classical defender of cost-benefit analysis fails to apply her own theory consistently. Within justifications of cost-benefit analysis once the political and governmental arena is entered actors are no longer taken to make rational choices that maximise their own utility: they rather become altruistic channels through which the maximisation of the general utility is achieved. The public choice theorist presents itself as a response to that failure of theoretical nerve. It represents an attempt to apply neo-classical theory in political and other non-market settings. "Public Choice' ... is really the application and extension of economic theory to the realm of political and governmental choices." (Buchanan 1978, 3)² The axioms that characterise the rational agent in economic life are to be extended to explain the behaviour of the bureaucrat and politician in their political activities, and indeed behaviour in all other spheres – associational, familial and so on.

¹ For surveys see Mueller 1989 and Dunleavy 1991. The classic texts in the Virginian School of Public Choice are Buchanan/Tullock 1962 and Buchanan 1975. The Chicago School of Public Choice is represented by Becker 1976. The Chicago version is much more closely tied to the extension of neo-classical theory to new domains than is the Virginian version which has taken an increasingly Austrian turn: consider the influence of Hayek on Buchanan's later work (see, for example, Buchanan 1986a).

² Compare Mueller 1979, 1: "Public choice can be defined as the economic study of non-market decision making, or simply the application of economics to politics."

That extension of the theory produces very different accounts of state action than that assumed in the traditional neo-classical welfare economics that theoretically underpins cost-benefit analysis. Cost-benefit analysis does not and could not produce the optimal outcomes of 'ideal markets' by other means. It cannot because the state actors that employ it act to maximise their own interests not the 'public interest'. Bureaucrats are taken to aim at maximising the size of their bureau budget, since that is correlated with their utility defined in terms of components such as "salary, prerequisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes, and ease of managing the bureau" (Niskanen 1973, 22)³ Likewise, in explanation of the behaviour of politicians it is standardly assumed that they aim to maximise votes and hence gain political office. Voters in turn aim to maximise the satisfaction of preferences for those goods the state can deliver.⁴ Once neo-classical theory is applied to politics, the claim that the state application of cost-benefit analysis could rectify market failure falls. The self-interested behaviour of bureaucrat, politician and voter leads, if unchecked by institutional reform, to the constant expansion of government expenditure and provision, producing outcomes that are irrational and inefficient. 'Market failure' simply gives way to 'government failure'.⁵

The public choice response to environmental problems that arise from 'market failure' – externalities, public goods and the absence of a market price on many environmental goods – has been to find solution within the market sphere itself. The problems can be resolved by a redefinition of property rights within the market. Thus, Coase's theorem (Coase 1960) is invoked to resolve the problem of externalities: given perfect competition and the absence of transaction costs,⁶ then, if property rights are properly assigned either to the 'damaging' agent or the 'affected' agent, solutions to negative externalities, such as those of pollution, are possible through a process of bargaining. If the damaging agent has the rights, then the affected agent can compensate him not to continue the damaging activity; if the affected agent has property rights, the damaging agent can compensate her to bear the damage. Thus, for example, in the former case a pollution sufferer might compensate the polluter, in the latter, the polluter might compensate the sufferer. Similarly, where unpriced public goods such as clean air and water exist, the optimal solution is not to place a shadow price on the goods, but to define

³ See also Niskanen 1971. Downs 1967 defends a different version of a public choice account of bureaucracy which, unlike the account of Niskanen, includes altruistic motivations alongside narrower egoistic ones.

⁴ The major text defending this position is Downs 1957. An earlier classic attempt to apply economic models of behaviour to political actors, but with a more sceptical view of consumer sovereignty, is Schumpeter 1944.

⁵ This theme runs through much of the literature on public choice. See for example, Brennan/Buchanan 1980; Buchanan 1975, especially ch. 9; Buchanan/Wagner 1977; Niskanen 1971; and Wolf 1987, 43-70.

⁶ Buchanan 1969 attempts to show that the theorem still has relevance in conditions of imperfect competition and, under an Austrian re-interpretation, that transaction costs are not relevant to its truth: see Buchanan 1986b.

property rights, if not directly over them, then over their use, for example, through pollution permits: thus tradeable pollution permits which allow markets in pollution are defended on the grounds that they address the interests of the actors directly, and hence do not make unrealistic demands on conscience or law; that they encourage pollution to diminish where it is cheapest for it to do so; and that they even allow those with preferences for non-pollution to express those preferences directly within the market.⁷ The problems of environmental damage consequent on 'market failure' can be resolved not by treating environmental goods *as if* they had a price, but by directly bringing them within the realm of market contract. The problems have a solution within the sphere of voluntary market exchange and without recourse to government intervention that leads simply to 'government failure' worse than the failures it is supposed to cure.

Thus goes the public choice critique of cost-benefit analysis and the standard proposed alternative to environmental problems understood as problems of market failure. At the same time it represents a powerful response to environmental critics of neo-classical economics who assume that in burying cost-benefit analysis they bury its neo-classical parent. The public choice theorist might properly point out that the environmental critic of cost-benefit analysis also assumes the existence of benign political actors. Writers like Sagoff, even more than the defender of cost benefit analysis, assumes that when actors enter the political sphere they take on a quite different personality: that self-interested consumers become citizens concerned with the public good, that politicians express the values of citizens in public law, and that bureaucrats quite neutrally administer that legal expression of public values. Environmental critics of neo-classical economics have a still less realistic account of the nature of state actors than their welfarist opponents. The public choice theorist represents a rejection of both sides of the traditional debate from within the neo-classical paradigm.

II.

What response might the environmental critic of the neo-classical approach to environmental problems make to this apparently more theoretically robust opponent? Let me say at the outset that I believe that there is some power to the public choice critique of traditional welfare economics and its environmental opponents. I think it is quite right to point to indefensible assumptions both make about the benign nature of political actors. However, this granted, the 'realism' public choice theory insists upon in assuming that all actors are universally 'self-interested' is I believe itself neither supported by its neo-classical assumptions nor itself at all plausible. Nor is its presentation of environmental problems in the end any more adequate than that of the traditional neo-classical welfare economist.

A useful starting point for a response is an internal criticism of public choice theory from within the neo-classical framework itself. Public choice theory

⁷ See Dales 1968. For a useful survey market solutions to environmental problems see Rose-Ackerman 1977.

presents itself as a rigorous attempt to apply the axioms of neo-classical theory in all domains. Is that claim justified? Is it the case that the theorist is simply applying more consistently the axioms of neo-classical theory? Just what assumptions about the economic agent in the market is the public choice theorist taking over into non-market domains? A point that is sometimes made in defence of neo-classical theory is that the axioms that define the rational agent in neo-classical theory are a quite minimal attempt to characterise consistency in preferences (see Peacock 1992). The rational economic agent is assumed to have preferences that are complete, i.e. agents can express preferences over any and all goods; reflexive, i.e. every good is as good as itself; and transitive, i.e. such that x is preferred to y and y to z then x is preferred to z . The rational economic agent, thus defined, is then assumed to be concerned to maximise the satisfaction of a set of preferences, the 'utility function' of neo-classical jargon, under the constraint of a finite budget. Now, while I believe some of the neo-classical assumptions should be rejected,⁸ it is worth reiterating just how minimal they are. In particular, they do not entail that individuals are 'egoistic' or 'self-interested' in any strong sense of the term. It all depends what preferences they have: "The postulate that an agent is characterized by preferences rules out neither the saint nor Genghis Kahn." (Hahn/Hollis 1979, 4). Nothing in the theory rules out altruistic preferences. The rhetorical power of public choice theory depends on its smuggling in through the 'utility function' particular substantive assumptions about the nature of individuals' preferences. It goes well beyond the formal characterisations of individuals' preference structure that neo-classical theory assumes and imputes sets of egoistic preferences to agents. It is those substantive assumptions that form the whole basis of the public choice critique of benign state actors, not the axioms of neo-classical theory.

A second and I believe in the end more damaging point needs to be added: not only are substantive assumptions about agents' preferences smuggled in by public choice theorists, their characterisations of the nature of those self-interested preferences of individuals, of their 'utility function', changes according to the institutions they are describing. Within the market it is typically assumed to consist in the acquisition of consumer goods; within the political domain power through the acquisition of votes; within bureaucracy, promotion and advancement in status within the bureaucratic order.

Two points need to be made about these shifting assumptions about the actors' preferences. The first and more basic is that a familiar observation about the characterization of action entails that certain interests cannot even be specified outside of a particular institutional context. Consider the politician's interest in the acquisition of votes. Individuals can only perform the actions of voting or acquiring votes when they are embedded in a particular position in an institutional context: it is *qua* citizen that an individual can felicitously vote, and only *qua* candidate that an individual can be elected. Moreover, the action of voting itself depends on

⁸ See, for example, the problems with the assumption concerning transitivity in O'Neill 1993a, ch. 7.

a complex set of institutions that embody and are constituted by particular shared understandings. Only within certain institutional settings can the behaviours of marking crosses on papers, the raising of hands and so on be understood as 'voting'. In others, say the raising of the hand in the auction room or the lecture hall, or the marking of crosses against persons' names in a classroom, they have different meanings. Hence, an interest in 'acquiring votes' or 'winning an election' is an interest that is only possible within a specific institutional setting. Similar points apply to the interest in 'promotion' and that of 'buying' or 'selling' 'consumer goods': such interests themselves presuppose an institutional context.⁹

The second point about public choice assumptions is a more substantive one that goes beyond the mere possibility of interests: that is, in defining individual preferences differently in different contexts, public choice theory implicitly assumes, quite correctly, that different institutional settings foster different conceptions of self interest. Within the market setting, interests are defined in terms of the acquisition of property rights over objects; within the political domain, power is assumed to be the object of a person's interest; in the realm of bureaucracy, it is identified as the acquisition of status through promotion.

At this point I want to introduce my second voice into the debate, that of the classical institutional economist. Public choice theory is often presented as the development of a new institutional economics. It represents a response, from within the neo-classical tradition, to the neglect of institutional questions in that tradition. Thus, problems concerning the institutional conditions in which markets operate, for example concerning the definition of property rights against which market transactions take place; problems concerning the consequences of the certain institutional forms, such as the unrestrained operation of existing political and bureaucratic institutions; and finally normative problems concerning the specification of optimal institutional arrangements, all become central from the public choice perspective. This new institutional economics represents, however, a very different approach to institutions to that of classical institutional economics the later proponents of which opposed the neo-classicals' institutional myopia.¹⁰ By classical institutional economics I refer not only to the American tradition which bears that title that included Veblens, Commons and others (see Commons 1934; Veblen 1919), but also to economics that took place within a broadly Aristotelian tradition, including the work of both Marx and Polanyi,¹¹ as

⁹ For classic discussion of this familiar point which is of particular relevance for the discussion here, see Taylor 1971, 1-45. It is worth adding here, that not only do assumptions about institutional context enter into the descriptions of interests, they also arrive in the more substantive assumptions about the boundaries between different institutions in the modern world. It is, for example, simply assumed that votes and political office are not the sort of things that, in modern society, can be bought or sold. See, for example, Buchanan/Tullock 1962, ch.9.

¹⁰ The following owes much to Hodgson 1993; see also Hodgson 1988.

¹¹ Polanyi 1957a; 1957b. For a discussion of the influence of Aristotle on Marx and Polanyi see Meikle 1979; O'Neill 1993a, ch. 10; O'Neill: in press.

well as much of the classical economic tradition including the work of Hume and Smith.¹²

How does new institutional economics differ from its classical counterpart? The central difference concerns the explanatory role that preferences and institutions play in the respective traditions. The new institutionalism claims to represent the extension of neo-classical theory into new domains. I have suggested that there are problems with its claim to begin with the conventional axioms that define the rational agent within neo-classical theory. However, where it does stay true to its neo-classical roots is in starting with the assumption that preferences are given. The central explanatory problem is to explain the emergence and nature of institutions given that assumption. Reference to institutions appears only in the explanandum, not in the explanans. Old institutionalism differs from the new in that it allows individuals' preferences to be explained by reference to the institutional context in which they operate: references to institutions appear in the explanans, not just in explanandum.

New institutionalism and its classical counterpart start from very different explanatory assumptions. Which version of institutionalism is to be preferred? The question, in so far as it concerns explanation, is in the end one that has to be answered by reference to the canons of rational inquiry – adequacy to empirical evidence, explanatory power, consistency and so on. However, at present a strong presumption must be made for the classical institutionalism. I say this, not simply because of the absence of empirical support for many of the standard public choice claims (see Dearlove 1989), but because the new institutionalist programme has not been carried out. Its eliminative project of deleting references to institutions within its explanans has not been realised. As has just been noted, not only does the theory smuggle in substantive assumptions about individuals' preferences under the guise of neo-classical axioms, those assumptions vary depending on the institutional context in which the actor operates. The theory must assume an institutional background in its characterisation of individuals' preferences, and does assume that different institutional contexts foster different preferences. Thus reference to institutional contexts is smuggled in at the level of its assumptions about individuals' utility function. Thus while public choice theorists claim to start from preferences that exist prior to institutions they fail to do so. The explanatory claims of the older institutionalism enter unannounced, unnoticed and unwelcome into the new institutionalist's assumptions about the 'utility function' of the agent in different contexts. At the explanatory level existing public choice theories have not eliminated reference to institutions from their explanans. Substantive explanatory work has already been done in the specification of the utility function.

The implicit acknowledgment of the way that different institutions foster different conceptions of an individual's interests has important implications for

¹² Compare, for example, the views about the role habit plays in the formation of dispositions of character in Hume – see 'Of the Origin of Government', 'The Sceptic' and 'Of Interest' in Hume 1985 – and in Smith – see 1976, Book V, ch.1 – with those developed by Veblen 1919.

the public choice theorists' claim that they are simply extending the axioms of neo-classical theory concerning the rational self-interested agent into new domains. It is simply not true that one can transfer assumptions about self-interested behaviour in the market to other domains. In other institutional contexts, quite different conceptions of interests are apparent, which can and do conflict with that fostered by the market. Consider the old conflict between aristocratic and market institutions which concerned the classical economics of Hume and Smith. Typical is Hume's remark about the incompatibility of absolute monarchy and commerce:

"Commerce, therefore, in my opinion, is apt to decay in absolute governments, not because it is there less *secure*, but because it is less *honourable*. A subordination of ranks is absolutely necessary to the support of monarchy. Birth, titles, and place, must be honoured above industry and riches. And while these notions prevail, all the considerable traders will be tempted to throw up their commerce, in order to purchase some of those employments, to which privileges and honours are annexed." (Hume 1985, 93)¹³

The comment has some power. In traditional aristocratic societies, honour is institutionally defined as the object of one's interest: to sacrifice one's honour for money would be a sign of vulgarity. That conflict between the bourgeois world of markets and the aristocratic world of honour played an important part in the cultural shifts in eighteenth and nineteenth century Britain.

Consider another more live example, the question of the commercialisation of science. It would be a mistake to see this either, in the fashion of public choice theory, as simply a way of taming 'professionals' who, under the guise of 'scientific values' conspire against the public in the pursuit of the same set of interests they have as 'market actors'; or, as opponents of public choice might have it, as an invasion of a purely 'altruistic' practice (science) by a sphere of egoistic behaviour (markets). It rather involves a shift in individuals' conceptions of their interests. In traditional scientific institutions one's interests were characterized in terms of recognition by peers of a significant contribution to one's discipline, recognition achieved through publication in a peer reviewed journal (see Merton 1968, 601; Ravetz 1973; O'Neill 1990). Commercialised science brings changes in the nature of intellectual property rights such that publication is redefined as an act in conflict with one's interests. Hence the spread of university instructions *not* to publish results, since to do so will be to miss the "benefit in material terms from the intellectual property you have produced" (From a circular quoted in full in O'Neill 1992). What occurs is an institutional redefinition of individual interests. The assumptions about self interested behaviour in the market cannot be transferred to other institutional contexts. In different roles in different institutions agents have quite distinct conceptions of their interests. Hence the shifting utility functions the new institutionalist is forced to assume. It is the classical institu-

¹³ See also Aristotle's remarks on the effects of wealth on character in Aristotle 1946, Book II, ch.16.

tionalist that offers the more defensible perspective on the relationship between individual preference and institutions.

III.

The two forms of institutionalism do not simply conflict in their explanatory claims. The differences between them also have a normative dimension. They belong to different normative traditions and focus on different normative questions about institutions. Consider first the new institutionalists. The normative principles employed by new institutionalists are what Barry has usefully characterised as want-regarding principles, that is, principles which take as given the wants or preferences agents have and are concerned only with the total amount and distribution of preference satisfaction amongst those agents (Barry 1990, 38). The assumption of want-regarding principles is a quite general feature of neo-classical economics – it is basic to the pareto optimality criterion and its Kaldor-Hicks and social relatives.¹⁴ What is more specific to the new institutionalism of public choice theory itself is the focus on the design of institutions themselves. The central normative question it asks is this: what institutions should we construct given that individuals are rational self-interested agents, who pursue their own ends both in the marketplace and in nonmarket behavioral settings (Buchanan 1972, 22). That question is often simply taken to follow from the central substantive claims of public choice theory itself. Given that individuals both in market and non-market settings act as rational self-interested agents, institutions need to be designed around that fact. As I have noted above, the assumption of self-interested egoistic actors does not follow from the axioms of neo-classical economics. However, in some of its less unremitting moments the normative concern is restated without the assumption of universal egoism: while it may in fact be false that all persons are egoists, in the design of good institutions we need to assume that they are. The principle of institutional design thus stated is supported in a variety of ways, and by appeals to a number of authorities. Sometimes it is made in economic terms: that ethical constraints are a scarce resource, the use of which should be minimised (Buchanan/Tullock 1962, 27ff.). At others principles of justice are invoked: the 'immoral' or 'egoistic' should not be allowed to gain 'unfair' advantage over his or her altruistic fellows (ibid. 302-6). Often it is simply invoked as a principle of institutional design that represents an inherited political wisdom. Buchanan calls upon the authority of Mill's *Consideration on Representative Government* – "the very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of the holder" (Buchanan 1978, 17-18). Reference is also sometimes made to Hume: "Political writers have established it as a maxim, that,

¹⁴ The use of purely want-regarding principles is standardly defended in terms of either meta-ethical subjectivism, or desire-fulfilment accounts of well-being, or liberal arguments that appeal to neutrality and anti-paternalism. For criticism of those justifications see O'Neill 1993a, chs. 5 and 6.

in contriving any system of government, and fixing the several checks and controls of the constitution, every man ought to be supposed to be *knave*, and to have no other end, in all his actions, than private interest" (Hume 1985, 42), where Hume explicitly denies that this is in fact true: "it appears somewhat strange, that a maxim should be true in *politics*, which is false in *fact*." (ibid., 42-43)

This normative claim about institutional design contains a partial truth. The problem of the vulnerability of institutions to the vicious, the egoist, the careerist, and the lover of lucre and power, are problems that any plausible social and political theory has to take seriously. It does not follow, however, that institutions must thereby be designed around the assumption that all persons are thus motivated. The institutions that one would arrive at by that principle are themselves likely to foster the very vices they are designed to check. Moreover, the classical thinkers invoked by public choice theorists are misinterpreted if they are understood in this fairly simple way. While Hume does believe that "avarice, or the desire of gain, is a universal passion which operates at all times, in all places, and upon all persons" (Hume 1985, 113), he does not believe it is the only passion and in different institutional contexts it is either fostered or subject to countervailing passions. His specific point about knavery in politics is simply mis-read if it is understood as an early statement of the public choice principles. His point is one that applies solely to the political and concerns the behaviour of men when they act in parties, such that the countervailing check of honour is absent. Likewise, J. S. Mill's principle is a very particular principle about political power. To invoke Mill's *Consideration on Representative Government* in support of the public choice perspective is to ignore the central thesis of that book which is concerned not with the design of institutions around the assumption of egoism, but rather with both the educative and corrupting effects of institutions on the individual: "the first question in respect to any political institutions is, how far they tend to foster in members of the community the various desirable qualities moral and intellectual." (Mill n.d., 29)¹⁵

It is Mill's question about institutions that animates the normative dimension of classical institutional economics. The classical institutionalist assumes that different institutions promote different preferences. That central normative question it asks is this: what institutions foster desirable preferences?¹⁶ That question is not want-regarding but ideal-regarding: it concerns not the satisfaction of given wants, but the cultivation of certain wants. A strong perfectionist current runs through the writings of classical institutionalism. The language it employs is that of virtues and vices and the relation between social institutions and the moral

¹⁵ For a powerful recent defence of perfectionist liberalism see Raz 1986. I defend the compatibility of perfectionism and pluralism in O'Neill 1993a, chs. 6 and 10. It needs to be noted here that Mill's perspective on the role of institutions on individuals' preferences sits uneasily with the psychologism he defends in Mill 1947, Book 6. However, it is the psychologism that needs to go, not the institutionalism.

¹⁶ In the new institutionalism, since preferences are taken to be prior to and explanatory of institutions, that question cannot be asked.

character.¹⁷ Much of it has its origins in the classical political thought of the Greeks. Aristotle is the most influential figure in this regard. The end of the polis is the good life (Aristotle 1948, 1280b 38f.), where the good life is characterised in terms of the virtues: hence, the best political association is that which enables every person to act virtuously and live happily (Aristotle 1948, 1324a 22). The market is criticised in terms of its encouragement of the desire for the unlimited acquisition of goods and thus the vice of *pleonexia*, the desire to have more than is proper.¹⁸ The old institutional economics in the wide sense outlined above is the inheritor of this classical tradition. This is the case not only for those theorists who broadly follow the Aristotelian criticism of the market, such as the civic humanist critics of commercial society of the eighteenth century, Marx in the nineteenth, and Polanyi in this, but also amongst classical economic thinkers who rejected Aristotelian scepticism about the market. The classical economic thought of Montesquieu, Hume and Smith represented a response to the civic humanist's critique of commercial society which stayed within the language of virtues and vices. They defend commercial society, with qualifications, for the effects it has on the human character.¹⁹ The same concerns are present in Mill's defence of the market, which, like his defence of democracy, focuses on the way it develops the autonomous character.²⁰ What is shared in classical institutionalist perspective is not any particular substantive position, but a set of questions concerning the relationship between institutions and the development of character.

What relevance does classical institutionalism have for the debate between proponents of neo-classical approaches to environmental problems and their environmental critics I outlined at the outset of this paper? The answer I suggest is that it moves it onto a more fruitful level of argument. The public choice theorist, for all the criticisms I have made of it, is quite right to insist, against both cost-benefit analysis and many of its recent environmental critics, that one cannot simply assume a benign state inhabited by beneficent state actors, politicians and bureaucrats, who answer either to the preferences of consumers or to the judgements of morally upright citizens. The public choice theorist is also right to insist that one considers questions about the institutional framework in which environmental decisions take place. However, those questions need to be widened beyond those the public choice theorist allows. The problem is not that of either explaining or designing institutions given universal self-interest, but that of examining the ways in which institutions define and foster different preferences. The explanatory and normative questions posed by new institutionalism should be replaced by those posed by old institutionalism. The central question to be asked

¹⁷ Amongst the classical American institutionalists, this is clearest in the work of Veblen: it is apparent in particular in Veblen 1953.

¹⁸ Aristotle 1948, Book I, chs. 8-9. For a discussion see Polanyi 1957c; Meikle 1979; O'Neill 1992.

¹⁹ For discussion of this aspect of classical political economy see Hirschman 1977; 1982; Pocock 1975; 1985; Winch 1978.

²⁰ See for example Mill's criticism of socialism in 1965, Vol. 3, 794. For a useful discussion of Mill's position see Smith G. 1990.

of an institutional environmental economics is this: what institutions nurture desirable preferences for environmental goods? That question is clearly perfectionist in form and a full defence of the possibility of asking it requires a defence of perfectionism against objections from want-regarding perspectives. I have defended an Aristotelian approach to environmental ethics and politics elsewhere and I will not rehearse the arguments here.²¹ I want to finish rather by considering in one case the kind of answer one might expect to that question and how it differs from the want-regarding approaches associated with neo-classical economics.

To ask my question about the relation of institutions to environmental goods is not necessarily to raise a quite new set of issues for institutional economics. On some issues it involves reviving old questions that were central to classical economics which have been lost in more recent debates. This is particularly true of the debate on future generations. The approaches of the neo-classical and classical institutionalist perspectives on the problem provides a good example of how the approaches differ in detail. The neo-classical approach is want-regarding. It focuses on questions concerning the satisfaction of preferences over time. Its particular focus is with the questions of discounting, with whether future preferences either of our own or others should be weighted lower than present preferences, and relatedly, with questions of distributive justice in the satisfaction of preferences across generations. I have criticised the practice of discounting elsewhere and I leave it aside here. It is worth contrasting however with the debates on future generations that is to be found in the work of classical institutionalists. This addressed a different set of questions – with what institutions develop a preference for the good of future generations.²² Thus the early civic humanist critique of commercial society for undermining the civic virtues had a temporal dimension. The institutional foundation of the civic virtues lay in "real property recognizable as stable enough to link successive generations in social relationship belonging to, or founded in, the order of nature" (Pocock 1975, 458). Commercial society, by mobilizing land, undermined intergenerational links. The problems concerning the effects of the mobilisation of land and labour on intergenerational links remained a central theme in Polanyi's criticism of market society (Polanyi 1957a, chs. 14-15). The institutional question about future generations has been revived in a more specific form in recent work in environmental history. Duncan remarks that "the institutional context in which agronomic decisions are taken should be the *first* thing to be characterized in any general agricultural history" (Duncan 1992, 75-94; emphasis in the original). Whatever the truth or falsity of his account of the relationship between different forms of lease holding and property ownership, and sustainable agriculture, the question is the right one to ask. One of the first things that needs to be characterized in an environmental economics, quite generally, is the institutional conditions of sustainable economic prac-

²¹ I defend perfectionist approaches to political and economic institutions in O'Neill in press; and to environmental problems in 1993a.

²² I address this question in O'Neill 1993b.

tices: in particular, what institutions foster in individuals a wide conception of their interest that encourages sustainable practices? What institutions undermine such conceptions? Those questions are different from those offered by the neo-classical tradition. They are ideal regarding, not want regarding. They are none the worse for that. It is questions of the sort classical institutionalism asked that provide the most fruitful pointers for future inquiry, both explanatory and normative. The public choice theorists are right to hold that the debate on environmental economics needs an institutional dimension. However, that dimension is best provided not by the new institutionalism but the revival of the old.

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