Community Economic Development

Social Decision Making:

For Want of a Simple Decision Rule

The job of making decisions about community economic development would be so much easier if they was some simple decision rule that could be employed. These decisions, however, are inextricably tied to one of several alternative value structures that represent different definitions of social justice. These alternative perspectives have corresponding economic decision-criteria that act to guide the translation of philosophy into public policy. In a tacit manner, these alternative economic philosophies act to provide criteria reflective of a decision's economic "just-ness." The titles people attach to these alternative economic philosophies vary widely. For our purposes, we will summarize them as within three alternative ways of thinking that include: (1) utilitarianism, (2) libertarianism and (3) contractarianism.

Utilitarianism. This alternative classical economic philosophy relies on early concepts as described by Jeremy Bentham in England during the 1700s.[i] The classical utilitarian or Benthamite welfare function is a simple the sum of the individual utility functions. The Benthamian concept centers on the rightness or wrongness of actions that are determined by the goodness or badness of their consequences for society as a whole. Utilitarians consider maximization of social utility as the basic criterion of morality. In essence, the phrase "greatest good for the greatest number in the long-run" represents the basic decision-making criteria as espoused by the utilitarianist perspective. In utilitarianism, social utility is defined as the sum or average of the utility of all individuals in society. It rests on the concept forwarded initially by John Locke that all individuals be counted equally. Each person in society receives an equal weight and voices his (more recently, her) presence as a vote. At the local level the notion of social capital is intimately linked to utilitarianism. With utilitarianism, the "one man—one vote" criteria explicitly assumes a more equal initial endowment. Still, in some societies there may be a certain subgroups that are assigned extra "weight" such as youth or elders or even military veterans.

Libertarianism. This classical liberal philosophy advocates an individual's entitlement to freedom from the interference from others.[ii] With respect to "just-ness" of an economic decision, libertarian thinking believes that holding, using, and transferring resource endowments is just if it is beneficial to an individual and if it does not impinge on the liberty of others. Thus, libertarians hold to market efficiency as a key decision rule. Namely, only programs that satisfy market efficiency criterion are acceptable. Here the market efficiency (or Pareto optimality) criteria involve decisions whereby at least one person gains while making no one worse off. Libertarians hold fast to competitive free markets as "morally-free" zones. Indeed, libertarians believe in a limited role of government intervention in freely operating competitive markets. The primary role of governments, from a libertarian perspective, is to ensure the institution of democratic decisions about rules of the game and, once instituted, full enforcement of these rules. In practice at the local level libertarians believe that the only public goods and services local governments should be providing are transportation services and police and fire protection. Government has little if any role in providing park and recreational opportunities, for example.

Contractarianism. This extension of utilitiarianism rests on the assumption that individuals are willing to accept constraints on their actions because they agree that if everyone accepts, all will benefit.[iii] It differs from utilitarianism in that the greatest good for the greatest number is often unjust because it comes at the expense of the weakest. This contemporary philosophy is often identified as Rawlsian named after John Rawls, a Harvard philosopher who wrote extensively on liberalism. Rawls forwarded a philosophy of social justice based on two principles. First, individuals have a right to the most extensive system of basic liberties and inequalities are based on differences in initial endowments. Second, inequalities are prioritized to provide the greatest benefit to the least advantaged. As a decision rule, contractarianists rely on the *maxi-mim* criterion which holds that decisions should attempt to maximize the welfare of the minimum group in society. At the local level this philosophy emphasizes policies that address people living in poverty first and foremost. A contractarian would argue that the justness of a society is judged by how it treats the lowest members of society.

Arrow's Impossibility Theorem. While in theory the ability to design a social welfare function to assess the alternative policy options is appealing, can it be put into practice? The classic work which addresses this question, and upon which most of the literature is built, is by Kenneth Arrow (1951). Arrow set down certain properties or value judgments that a social welfare function should possess such as if all individuals prefer one allocation to another, society should do the same. Arrow found that, indeed, a social welfare function could be constructed that satisfied these minimal characteristics, but the only admissible one would be an unattractive, specifically a dictatorship: all social rankings are the ranking of one individual. Perhaps the most surprising part of *Arrow's Impossibility Theorem* is that three plausible and desirable features of a social decision mechanism are inconsistent with democracy. The implication here is that there is no perfect way to make social decisions. There is no perfect way to aggregate individual preferences to form social welfare function.

For the community economic development practitioner the implications of the Impossibility Theorem is that our ability to measures social welfare is far short of our ability to theorize and think about social welfare. In the end, these philosophies are just that, ways to think about and approach economic development. In the following section we discuss practical approaches to setting community economic development policy. Each of the approaches discussed can be viewed within the framework of the above economic social welfare philosophies.

i: John Locke (1632-1704) --- an early English advocate for social just-ness of decisions based on one man, one vote. Utilitarianism rests on "the greatest good for the greatest number in the long run" as a basis for determining just economic decisions.

ii: Milton Friedman (1912 - 2006) – a leading proponent of the libertarian approach to economic philosophy. Libertarianism is characterized by much of the contemporary economic thought as espoused by the "Chicago School" and rests on the notion of Pareto optimality as a key decision rule for just economic decisions.

iii: John Rawls (1921- 2002) --- advanced a perspective that advocates a contractarianist economic philosophy in which individuals have a right to the most extensive system of basic liberties and inequalities are based on differences in initial endowments. As a decision rule, contractarianists rely on the "maxi-min" criterion which holds that decisions should attempt to maximize the welfare of the minimum group in society

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