Social Costs and Public Action in Modern Capitalism

Essays inspired by Karl William Kapp's theory of social costs

Edited by Wolfram Elsner, Pietro Frigato and Paolo Ramazzotti

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The Social Costs approach to the globalised capitalist market economy has gained new relevance in recent years. The present situation is one of widespread and increasing deterioration of the social, cultural, democratic, and environmental frameworks of advanced capitalist market societies. This deterioration is indicated by the threats of unemployment, precarious working conditions and increasing income/status inequality, uneven geographical developments, and the exploitation and undermining of the institutional fabric of the society. It is aggravated by the rapid extension – at local, national, regional and global scales – of ecological disruption. So the global capitalist market economy is characterised by a great deal of instability and so-called *true uncertainty,* which largely undermine its coordinating and welfare-enhancing capacities.

The view and heuristics suggested by Karl William Kapp's seminal *evolutionary open-systems approach* is that these processes and the resulting social costs are the outcome of a widening gap between private individualistic economic and societal values or, to use Karl Polanyi's term, of the increasing disembeddedness of the economy from society.

Kapp's analysis of social costs contends that, from the perspective of the community, assigning a money value to social costs is inappropriate because prices cannot adequately reflect the full magnitude and significance of the real losses involved. In addition, innovation continuously changes them in order to *shift costs* from business to sections of society. By focusing on the market as the only possible economy, formal theory implicitly favours those economic and social interests that have most to gain from a disembedded market. Even those interests, however, are likely to suffer the long term consequences of disembeddedness. Indeed, while conflicts of interest among different sections of society are crucial to understand the origin of social costs, the notion of social cost transcends sectional interests and involves the overall well-being of society.

Kapp's approach to *public policy* suggests that the economy must be functional to society, not the other way round. *Societal goals* should be a priority for the economy, and the economy should be the means to accomplish them rather than a constraint. The performance of the economy should be valuated in terms of the societal goals that it can actually achieve.

Current analyses of the global capitalist market economy are overdue to be undertaken making use of Kapp's powerful analytic frame. *Social Costs and Public Action in Modern Capitalism* examines and applies this approach from theoretical, conceptual, empirical, policy and case study levels.

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Preface

This volume originated from the international conference on ‘Humanizing and Ecologizing the Social Sciences. An Interdisciplinary Meeting on the Social Costs of Capitalism in Memory of Karl William Kapp’, which was held at the University of Trento (Italy) on November 22–23, 2002. The conference was organized by Pietro Frigato, Rolf Steppacher and Lauro Struffi and sponsored by the Department of Sociology and Social Research of the University of Trento and the ‘K.W. Kapp and L.L. Kapp Foundation’.

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Introduction

Wolfram Elsner, Pietro Frigato and Paolo Ramazzotti

The renewed relevance of social costs

An old joke from mainstream economics is that economists are divided into two groups: the optimists, who believe we live in the best of all worlds, and the pessimists, who fear that the optimists may be right. The conclusion obviously is that, independently of how you view reality, you should not change the status quo.

Possibly because not all of the authors of this book are economists, the papers in this volume are based on a different premise. Based on a long-standing tradition of institutional thought, the point of departure for the studies presented here is that economics is unavoidably a normative science and that it is worth investigating precisely to achieve a better world. The book is optimistic in a different way. Its aim is to investigate how we can put to use the approach and insights of an evolutionary and institutionalist economist, Karl William Kapp, who dealt with concrete social problems by means of a very sophisticated theoretical approach, which drew on both the European and American institutionalist traditions. The concrete problems he dealt with are clearly pointed out in the title of his most famous book, *The Social Costs of Private Enterprise* (Kapp 1950). The theoretical approach is *open-systems* oriented and holistic: it is institutional and evolutionary, systematically influenced by new developments in the *natural and social sciences*, and strongly policy-oriented (Kapp 1976b). The key tenet of the papers in this book is that Kapp's insights are still extremely useful to understand economic change today and to identify appropriate policies to deal with its – ever more ubiquitous – social costs.

The social costs approach to the globalized capitalist market economy has gained new relevance in recent years, and increasingly so. The present historical situation is one of widespread and increasing *deterioration of the social framework* of advanced capitalist market societies. This deterioration is indicated by the threat of *unemployment*, precarious *working conditions* and increasing income/status *inequality*, uneven geographical developments, and the exploitation and undermining of the institutional fabric of society. It is aggravated by the rapid extension – at local, national, regional and global scales – of *ecological* disruption. What is often presented as a substantially efficient competitive process is not only unable to solve these problems. It is itself characterised by a great deal of *instability* and so-called true *uncertainty*, which undermine its coordinating, stabilising, and welfare-enhancing capacity.

While most people will acknowledge this, a more controversial question is what originates these phenomena. The prevailing view is that they are the consequences of *'imperfections'* in an otherwise effective *'coordination mechanism'*, i.e. the 'market economy'. The view suggested by Kapp's approach is that they result from intrinsic features of capitalist market economies. They are the outcome of a widening gap between private individualist *economic* and *societal values* or, to use Karl Polanyi's terms, of the ever increasing *disembeddedness* of the economy from society and of the 'embedding' of society within the economy. The key actor in this process is business or, more specifically, it is the increasingly dominant, globalised, deregulated and disembedded hierarchical and power system of business enterprise.

It is somewhat surprising that, under these circumstances, K.W. Kapp's classical works on social costs (Kapp 1950, 1963) have been largely neglected by the economic mainstream orthodoxy. The term 'social cost' is, in fact, fairly commonplace in economic discourse since the development of the *'New Institutional Economics'*. In Kapp's view, however, social costs have little to do with the absence (or inadequate definition) and enforcement of *property rights*, and dealing with them requires a definitely more active *public policy action*. Social costs are, according to Kapp, losses suffered by sections of the community (including business itself), or the community as a whole, as a consequence of unrestrained business activities. They involve the living conditions of people as they are affected by working conditions and by all sorts of environmental disruption and downgrading of institutions of social coordination and cooperation.

Social costs are all but the exception, in a capitalist market economy: they generally arise when business firms *shift* their *private costs* on to other parties, be they workers, consumers, neighbourhood communities, the public sector, the environment, or society as a whole. They do not involve a merely distributive issue, however, whereby the cost to one party is a gain for the other. Quite to the contrary, in so far as costs are shifted not only on third parties but also on common resources, they involve a cost for the community as a whole, including – in some instances – those who have generated them.

Although there are instances when these costs can be monetized, it is not possible to avoid them by relying on relative prices alone. The reason for this is not that the market lacks the background institutions (i.e. individual property rights) that would allow it to be 'efficient', thereby either determining 'wrong' prices or no prices at all as the neoclassical 'new institutional' transaction cost and property rights school suggests. A different perspective is required.

In order to evaluate the performance of markets – thus also social costs – it is essential to understand that they are *not isolated systems* (Kapp 1976a, b). They interact with the social and natural environment they are a part of. *Relative prices* depend on the specific features of this interaction, quite independently of relative scarcity and rational need satisfaction. How the interaction is defined – thus whether the economy is functional to society's needs or the other way round – is part and parcel of public policy action. In this perspective, social costs may be conceived of as the indicators of the gap between the economy's values and society's values. If they could all be monetized, society would be a sub-system of the market economy rather than the other way round.

This is what links these costs to the above mentioned deterioration of the human, social and ecological frameworks of today's societies. Disregard of social costs or attempts to *reduce them to monetary values* do not remove them: they subsume societal values to economic ones; they subsume society to the economy.

Let us list a few major developments that occured since Kapp published his works.

Features of the globalized 'new' economy

Six major dynamics of change deserve attention.

1. *Technology and organization of production*: Technological change, especially in communication, has determined a widespread transformation in production, distribution and consumption. The development of *net-technologies* as the technological base of the socio-economy has added momentum to the increasing *fragmentation of value-added chains*. This implies that decisions are much more *interdependent* than they were in the past. Owing to complementarities in production, arm's-length (market) transactions alone are inadequate because firms need to cooperate in order to produce complex products and to innovate. Hierarchical (firm) transactions alone are also inappropriate, because they undermine the flexibility that technology allows and that innovation requires. The diffusion of alternative organizational setups, e.g. networks, provides some potential solution beyond those two extreme cases of the 'market'. However, the uncertain and turbulent environment has reduced the control that single actors have over their specific activity. As a result single actors attempt to reinstate and exert their *power* over the dispersed production process. This has two implications. First, trust and collective learning are hindered, thereby determining a further increase in strong, or true, uncertainty. Second, firms resort to internal flexibility – intra-firm flexibility – in order to make up for the lack of control that external flexibility – inter-firm and customer-firm flexibility – entails. This leads to a lack of security in working relations: workers cannot be sure that they will keep their jobs; in order to avoid unemployment, they are likely to accept a deterioration of their wage and of their working conditions. Although internal flexibility is usually justified by the need to adapt to new technology, the opposite is likely to occur: the organization of production is made ever more flexible in order to cope with uncertainty, in a way that unevenly allocates the costs and benefits among the capitalists and the employees.
2. *Globalization*: National economies are increasingly interdependent. International trade flows have substantially grown since the end of World War II. The internationalization of production has also grown. It originally consisted in investment to supply foreign markets or to gain access to resources

that were not available in the home country. It has subsequently become the international dimension of the above-mentioned fragmentation of value-added chains. These processes were enhanced by the progressive deregulation of trade and financial movements, under the influence of international agencies such as the WTO, the IMF, the OECD as well as of nation-state institutions. As a consequence, constraints on the balance of payments – and thus on competitiveness – have become more stringent, thereby forcing nation-state efforts to comply with the emerging rules of the new world economic order. In most instances, when technological capacity was lacking, this has reinforced attempts by firms to achieve competitiveness through cuts in production costs, i.e. through the mere redistribution of value added.

3. *Decline of the welfare state*: The social compromise of the Keynesian era – the thirty years following the end of World War II – was ended by a range of circumstances. The above-mentioned features of technological development require greater flexibility. Workers have to adapt to the uncertainty involved in the new organization of production, which means that they must be willing to change their jobs more frequently than in the past. They are also expected to adapt to the new learning requirements that innovation involves, which also means that when innovation is fairly radical, they risk either permanent unemployment and/or a downgrading of their status. In this perspective social security 'from cradle to grave' is viewed as an impediment to adaptation and to the efficient working of the labour market. Furthermore, high capital mobility forces countries to keep their interest rates in line with those of international markets. Since this determines financial constraints on domestic expenditure, private business puts pressure on governments to keep welfare expenditure low so that they will not have to bear high interest rates when they seek the finance for their real or financial investment.
4. *Ideological shift*: The theoretical ambiguities underlying the Keynesian and welfarist consensus of the post-World War II period precluded a thorough explanation of the processes here depicted. As a result there has been a shift, in academic circles as well as among political parties and public administrations, towards a '*neo-liberal*' view of the economy. An idealized view of the market was used not only to interpret economic relations among private agents but as a benchmark to assess what policy makers do, the underlying assumption being that policy makers act in accordance with the 'political market'. The claim that the latter was opaque suggested that the less political intervention the better. Thus, not only was welfare claimed to preclude the efficiency of the labour market. It was also claimed not to meet the real needs of people in an efficient way. The prospected solution was that individuals should seek welfare provision on the private market, freely choosing what best fit their needs. Similarly, since private markets were claimed to be less opaque than political ones, public provision of goods was deemed inefficient just as the pretence to publicly coordinate markets.
5. *The collapse of the State-socialist system*: Following the events of 1989, Eastern European countries sought to integrate their economies in the system

of capitalist market relations. This implied a transition process which involved the substitution of market-related institutions for the ones that prevailed in the former regimes. In most instances, a naive view of the market made the governments of those countries confident that market institutions would arise as soon as the former regimes were dismantled. By opening up to foreign trade and foreign direct investment Central European countries were, albeit to different degrees, integrated in the globalization process and in the transformation of production processes which was occurring in Western industrial countries. This integration, however, was accompanied by the rising commodification of labour, unemployment and social insecurity. The absence of social buffers to absorb the impact of this transformation implied transitions to markedly disembedded economies.

6. *Environmental disruption*: Economic growth involves the depletion of existing non-renewable resources as well as the saturation of the earth's absorbing capacity to assimilate wastes. The effect of the former is a growing world instability, associated to the pursuit of control over those resources that are crucial for economic activity. The effect of the latter is particularly evident in terms of climate change. The instability of economic relations outlined above and a rather unexplained technological optimism led to postpone attention to these issues. Technological optimism also underlies lack of attention towards another aspect of environmental change. Technological progress in a range of fields may be beneficial but it may also lead to dramatic effects. Nuclear power, even when it is not used for armaments, may have long-lasting consequences on the environment. Chances are that genetically modified organisms may also cause hitherto unpredictable effects. Research and development in these, as well as in other, fields of inquiry is basically carried out according to 'market' criteria and its results are commodified by assigning property rights that transform public property and knowledge into private property and knowledge. This reduces the possibility to control how these technologies are used and whether different uses or altogether different technologies would be socially efficient.

As we mentioned above, the changes outlined here have led to a number of problems. They include precarious working conditions – involving the threat of unemployment, low wages and a weaker enforcement of basic rights in the working place – and precarious living conditions, since the above situation is complemented by less public action to support people's welfare, rights and capabilities. They also include environmental disruption. Finally, owing to the rise in uncertainty and the decrease of social commitment and social institutions already outlined, they also include low growth rates as recent international surveys on the levels of trust and their impacts on economic performance demonstrate. The causes for these complexes of social costs are the *incapability* of markets and of market-centred policies of national governments and international agencies to *coordinate* economic activity effectively and to support joint learning investments and the building of trust and commitment.

The issue, therefore, is to provide an interpretation of the above sketched events that allows us to identify the means to prevent them and to overcome their negative consequences.

Two interpretative frameworks

The conventional way to look at these changes is to identify a range of *'exogenous' shocks* on the economy. Thus, according to this view, technological change forces firms to adapt to new efficiency requirements. Adaptation to technological change depends on how efficient the 'market' is as a coordinating mechanism. Market failures may preclude efficiency. Consequently, governments – and international agencies – who are concerned with efficiency must ensure competition and determine institutional arrangements to prevent or overcome other forms of market failure. *Externalities*, i.e. effects on third parties that the market does not register, are a typical case of such a failure. Under these circumstances, public action is suggested that consists either in assigning property rights to stakeholders, so that market transactions will eventually allow compensation, or in acting directly – e.g. through a Pigou tax – to make up for the market failure.

This emphasis on efficiency is not to deny that policy makers may be socially concerned. Despite ideological scepticism concerning the role of governments, public action may actually focus on issues such as equity or social cohesion. It may therefore act in favour of some social actors, possibly the 'less fortunate' ones, but any such action must take into account an equity/efficiency trade-off: social goals generally constrain economic activity.

Kapp's alternative view is that the negative consequences of recent economic evolution are not side effects. They are the social costs that individuals and communities bear as a consequence of the unrestrained – or improperly embedded – activity of private business. Thus, they are the point of departure for any policy agenda that is independent of those vested interests. It is appropriate to elaborate on this issue.

Consider flexibility in the labour market. It is fairly intuitive that it allows business to shift the costs of the fragmentation of value-added chains, of resulting uncertainty and coordination failure, on workers and on the community. It is far less intuitive that the latter should bear those costs instead of firms. Truly, the case may be made that business should be relieved of the costs it has to support in order to be competitive, and that it is appropriate from the community's point of view to transform private business costs into social costs. To do so, however, requires an appropriate *accounting* of those costs. This is a fairly straightforward task if we look at it from the point of view of business. Costs are quantifiable: the more they get shifted – thereby turning from private into social costs – the higher money profit (the lower money loss) is.

On the other hand, from the perspective of the community, assigning a money value to social costs is more complicated. The redistribution associated with cost-shifting may well affect household (money) income but it may produce other sorts of effects as well, e.g. on the *health* of workers. Truly, providing compensatory health care may lead to a quantification of these costs. It is also possible to place a price tag on the psychological and social consequences of suffering and impairment. One should be aware, however, that such a procedure is highly discretionary. The 'market efficiency' claim, for instance, assumes that prices provide information in terms both of vendibility and serviceability, which, at the very least, is open to dispute. Even if we were to accept this assumption, however, prices would still be unreliable: relative prices depend on the *distributive effect* of cost-shifting, so it is not clear whether the unit of account to assess social costs should be the relative prices that precede or those that follow cost shifting.

The above considerations are restricted to a static context. In an *evolutionary* one business continuously attempts to devise technological and institutional innovations that will increase its profitability, and devising ways to make the labour market more flexible is just one way to innovate. Consequently, relative prices constantly change and, along with them, the above-mentioned distributive effects. This raises some questions as to what public policy should focus on. Should it be ex post compensation or the determination of a legal-economic nexus that anticipates the consequences of innovation? A rather different approach would be to focus less on which social section is to bear the cost of change than on the direction of change itself. The underlying premise is that, contrary to the conventional approach, whereby the market must adapt to exogenous shocks, economic circumstances interact with a range of elements: political, social, environmental, cultural and technological. Although, for simplicity's sake, it is sometimes convenient to isolate them and discuss each one of them separately, they are part of an overall process and it would be misleading to consider them independently of each other. There is more to the unreliability of markets than the unreliability of prices.

This same interdependence – which reflects the *systemic openness* of the economy – shows a further drawback of market-centred approaches. A typical Coasian claim is that it is sufficient to assign property rights to stakeholders, so that whoever is prejudicial to someone's property may be held responsible for his/her action. The fundamental problem of neoclassical Coasian – New Institutional – Economics is that the most basic and ubiquitous circumstances in the real world are not the result of a specific agent's conduct but of a range of interdependent conducts. Some of these conducts might not even be harmful were it not for the uncoordinated and concurring actions of other actors. Supposing it were possible to assign property rights on polar bears, who should be held responsible if they were to starve because the Arctic Sea ice shrinks?

Systemic openness also suggests that we do not focus on direct causal links alone. Change may be originated – or influenced – by purposive action but it often has a dynamic of its own, based on the interaction of factors that lie *beyond the control of individual actors*. In an interdependent evolving system, it is therefore difficult to discern whether something could be different from how it actually is, thus whether its negative connotation actually represents a cost suffered by someone to the advantage of someone else. Consider, for instance, how firms in the 'New' economy try to shift the costs of strong uncertainty, non-coordination and lacking collective action capacity towards each other (may it even be a mutual blockage of action, or the incapability of innovative action, including technological lock-in) with the result that they are all at a loss because of the overall rise in uncertainty and decline in trust. This is why a policy may be required that establishes greater confidence, coordinated expectations, social commitment and, thus, stability in the future, eventually reducing those costs in what appears to be a positive-sum game.

This issue is important because it points to another important feature of Kapp's thought. By focusing on the market as the only possible economy, formal theory implicitly favours those economic and social interests that have most to gain from a disembedded market. Kapp suggests, however, that those same interests are likely to suffer the long-term consequences of disembeddedness. Thus, while conflicts of interest among different sections of society are crucial to understand the origin of social costs, the notion of social cost transcends sectional interests and involves the overall well-being of society.

This *substantive view of the economy*, as opposed to the formal one of conventional theory implies that the economy cannot be considered independently of the society it is a part of. More specifically, the economy must be functional to society, not the other way round. *Societal goals* should be a priority for the economy – and the economy should be an enhancement of societal opportunities – rather than a constraint. Thus, the performance of the economy should be valuated in terms of the societal goals that it can achieve, and little matters, in the first instance, whether the economy fails to meet social requirements because the market does not function properly, because institutional truces among social sectors prevent change or because of some other reason.

The identification of societal goals – and, symmetrically, of social costs – leads to a *cognitive dimension* in Kapp's approach that should not be disregarded. Cognition is not always associated with positive-sum games, at least not in terms of monetary payoffs. It took some time before firms were forced to use mechanical presses with a two-hand switch so that workers would not get their hands caught in the machines. Until then, the cost of speed in production was 'paid' by workers with accidents on the shop floor. Since then, the social cost of such injuries has been shifted back to firms. The cognitive relevance of this case is that: (a) perception that production could be carried out in a different way was conditional to the identification of a special type of social costs and to their substantial reduction if not elimination; (b) the value assigned to the health of the workers was deemed superior to the value of productivity; (c) this new arrangement was deemed appropriate through a (cognitive) shift from money accounting to social cost accounting. The latter approach framed the problem in terms of a positive-sum game whereas the former was more likely to frame it as a zero-sum (merely distributive) game or even a negative-sum game, in so far as the new arrangement negatively affected productivity and growth.

These issues suggest that a policy centred on the notion of a trade-off between equity and efficiency is misleading for a range of reasons. First, if societal goals are the priority, other indicators of economic performance – such as those pertaining to efficiency – may point to the existence of constraints but they cannot be considered on the same standing as the goals themselves. In so far as these constraints exist, they should be viewed as impediments that policy ought to remove or bypass, not as features of a status quo that society is subject to. This statement may appear less awkward to economists with a conventional approach if they acknowledge that a range of features of the economy – e.g. technology, preferences, institutions – can be assumed to be exogenous only in order to simplify their models, not because this is actually the case.

Second, precisely because the above features are not exogenous, the economy cannot be reduced to a device that allocates given resources according to given preferences, technology and institutions. Consequently, equity – in the restrictive sense of distribution – and efficiency are not the only possible goals. Whatever has to do with the material reproduction of society and with how this relates to societal values – what K. Polanyi would refer to as embeddedness – has to do with the goals assigned to the economy. Societal goals involve not only the choice of what goods should be produced and the techniques used to produce them but also what is generally referred to as the quality of life, along with the freedom required to pursue it. There is more to societal goals than equity.

Third, the variety of social goals and the endogeneity of preferences make it more difficult to identify a social welfare function than is the case in the conventional approach. The issue is not to somehow take account of given individual preferences – possibly as they are expressed by political votes – but to allow actors to identify and formulate them, to allow the community to deal with inconsistencies among individual preferences as well as between preferences and social values. This is symmetrical to identifying social costs. In so far as this process occurs both within the economy and within other domains of society, it cannot be assumed away from economic inquiry. The characteristics of democracy are also an economic issue.

Who knows and who chooses turns out to be a key issue, at the borderline between economics and political science. It is also a link between Kapp's lifelong work, which ended in 1976, and Amartya Sen's more recent depiction of development in terms of *capabilities*, i.e. the positive freedom to choose how to conduct one's life. Despite different emphasis on specific issues, there is a range of elements which suggest that the two authors, albeit independently of each other, have been pursuing a common research programme.

Kappian perspectives on today's globalized capitalism – the papers of this volume

In the above, we have provided a short outline of the problems that most capitalist economies are confronted with and we have suggested that Kapp's theory of social costs provides a broad, comprehensive and highly relevant approach to the negative consequences they lead to. In many instances we have already drawn on issues that the individual papers of this volume address. We will provide a brief survey of their main arguments now.

The first part of the book is concerned with theoretical foundations of open systems, social costs and entropy generation, and capabilities of coordinated and deliberate action.

Kapp's approach to social costs can be appreciated only as a part of his general theoretical framework which is clearly an institutionalist and evolutionary one. This issue is at the core of *Michele Cangiani*'s paper. Cangiani stresses the *open-system approach* followed by Kapp and the dehumanisation of economics that follows when conventional scholars depict the economy as a closed system. In this perspective, openness involves that collective values co-exist with individual ones and that social values co-exist with individualistic ones. A societal and economic coordination which relies on the 'market' favours business-centred values at the expense of society. The Kappian alternative to market coordination is *societal planning*, as Cangiani stresses, which is meant explicitly to set out the social and collective priorities that must underlie economic activity.

While Cangiani's paper situates Kapp's theoretical contribution in the context of a more general discussion of social institutions and planning, *Regine Heidenreich*'s paper provides a focus on Kapp's *cognitive premises*. She points to the key role that cognition plays in the understanding of economic action, especially technology, ideas, markets and preferences. Subsequently, she stresses its relation with the identification of social costs, which requires their social recognition by means of a twofold process: scientific dialogue and *collective decision-making*. Here, Heidenreich identifies what remains an open issue in Kapp's approach, namely which social or political agent is supposed to identify – or to arbitrate on disputes over – social costs: given that divergent interests co-exist, what justifies the fact that some are going to prevail over others? Although Heidenreich does not provide a solution to this 'anti-liberal fallacy', she suggests that Kapp's analysis of political processes of recognition and correction of social waste and the general direction of his policy prescriptions may have to be further developed today.

Drawing on a discussion between Beckerman and Kapp, *Maurizio Franzini* points out that the conventional and Kappian notions of *social costs* have little in common. While conventional views are strictly related to the efficiency of the market, Kapp's emphasis, according to Franzini, is on the *violation of social rights*. The elimination of this type of social costs is not incompatible with the market: just as in Coase's efficiency proposition, the issue might be one of individual property rights. Problems arise, however, in so far as the 'market' relies exclusively on mere 'willingness to pay'. Extra-market remedies may therefore be required, but this raises the issue of who decides and what the decisions should consist in. Franzini's suggestion is that insights on this issue may come from recently revitalised research on *deliberative democracy*.

The second part of the book is concerned with policy. *Wolfram Elsner* focuses on the scope for public action following the failure of the market as a coordinating instance under modern net-technological, value-added chain, cluster and network conditions. The paper provides an account of how changes in ICT increase the degree of complexity and interdependence among actors, thereby leading to a rise in uncertainty in the economy. Under these circumstances neither traditional – arm's-length, or hierarchical, or power-led – nor simple network forms of coordination can cope with such complexity in a self-sustaining evolutionary process. Strong uncertainty, mutual blockage of basic innovative action and technological lock-ins, therefore, are fundamental social costs of the contemporary de-regulated and globalized economy. They indicate widespread Pareto sub-optimal outcomes. Elsner does not draw the conclusion, however, that strong public intervention in substitution of jointly learned coordinated action of private agents is required. Quite to the contrary, a *'lean' interactive and 'institutional' policy* is outlined, based on pecuniary and non-pecuniary incentives, and on *futurity* as well, i.e. on the establishment of cooperation-enhancing processes and the learning of institutions to deal with social values and society's structure of 'merit' goods. This leads to a new hybrid governance approach of 'good' network (self-) governance and an institutional policy that is interactive with the networked interaction processes of the private agents.

James Swaney focuses on *environmental policy*. After a brief outline of the differences between market efficiency and community standards, he discusses the relevance of two non-market environmental thresholds: the limit to the supply of natural resources and the limit to the assimilation of wastes. He argues that technology may postpone but not stop the earth's trend towards these thresholds, i.e. towards what Kenneth Boulding has referred to as the 'spaceship economy'. Swaney then moves on to policy issues. He criticises Coase's approach in the light of Coddington's asymmetry between commodities and discommodities, making the point that while there usually are economic incentives to create the former, there are very few ones to avoid or eliminate the latter. This is the reason why, despite the shortcomings of price-centred policies, Swaney argues in favour of Pigouvian green taxes.

Gustav Obermair and *Lorenz Jarass* discuss the scope for *environmental taxes* in the German case. They begin their argument in favour of public policy by stressing that, given insufficient information and, consequently, the existence of a variety of local optima, achieving the 'greener valley' may require too much hardship by all social and economic actors. Following a discussion of the complementarity between normative and price instruments, they argue in favour of taxes that favour ecological and labour-intensive policies. Such measures were originally proposed by former EC-President Jacques Delors in terms of a tax shift: higher taxes on fuel and lower taxes on labour. Obermair and Jarass examine how this suggestion was eventually put into practice in Germany. Their general conclusion seems to be that the German case was successful, despite some rather grievous shortcomings.

Paolo Ramazzotti and *Marco Rangone* discuss 'voluntary' *unemployment* as a special case of a social cost. Workers who choose not to accept jobs that do not meet their expectations generally pursue goals that are socially valued, e.g. social mobility: by trying to improve their social status they indirectly – and, generally, in an unintentional way – tend to ameliorate the economic conditions of their society. As single individuals they may be mistaken about the market, when the jobs they want are not available, but precisely because of the social values that underlie labour supply it is misleading to claim that the cost they have to bear – unemployment – is a private rather than a social one. The authors subsequently examine the demand side of the labour market. They argue not only that the technology underlying labour demand should not be assumed to be exogenous, but that its creation should not be claimed merely to depend on consumer requirements. Both private and public technological research tends to interiorise business goals on the grounds that they are beneficial to society as well. Thus, when claims arise that may prejudge profit, they tend to be perceived as constraints on economic activity. Technological change is sought to remove them and to restore profitability, regardless of the other interests at stake. Here again, there is a social dimension to unemployment that begs for appropriate public action.

Pietro Frigato shifts our attention towards *health economics* by focusing on two cases of what Kapp termed 'hybrid fields of investigation', i.e. those disciplines that arise in order to deal with issues that lie beyond the boundaries of conventional disciplines. The problem with these hybrid fields of investigation is that, while they do acknowledge the need to deal with new issues, they also exacerbate scientific segmentation, in stark contrast with the need for inquiries based on an open-systems perspective. Frigato stresses how '*socio-economic epidemiology*' provides a great deal of clues to the understanding of recent issues. At the same time, he argues, its difficulty in trespassing its own disciplinary boundaries precludes it from appreciating all the connections that Kapp's work would suggest. Similarly, '*occupational safety and health economics*' provides interesting insights which are apparently in no relation with the results of research in socio-epidemiology. The implication, from a policy perspective, is that single measures are proposed that seem to miss the general picture.

Last but not least, *Richard Peter* and *Johannes Siegrist* examine the *social health costs* of recent historical changes in the labour market, with special reference for the European transition countries. In a typically Kappian attempt to link policy suggestions to an interdisciplinary scientific discourse, they examine the relation between precarious work and health. After a survey of the literature, they lay emphasis on the potential gap between work effort and expected reward that incomplete contracts lead to. This gap, and the stress it builds up, activates direct and indirect mechanisms which eventually cause damage to the health of the workers. Their policy suggestions, which are grounded also on the data concerning East European countries, parallel their interdisciplinary inquiry, ranging from measures on the quality of the working life or on income distribution to preventive medicine.

Kappian themes and public policy

The policy objectives in the essays vary in scope, testifying to the richness of the approach fostered by Kapp. In some instances they consist in very specific goals, to be pursued by standard measures, e.g. Pigouvian taxes. In other instances they include action which is generally not taken into account by conventional theory.