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"Welfare Economic Dogmas: A Reply to Sagoff"

Cookson, Richard

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This article examines Sagoff's criticisms of "Four Dogmas of Environmental Economics" (*Environmental Values*, Winter 1994) and argues that none of them are fatal. Many of the criticisms appear to rest on general misunderstandings about welfare economics. One misunderstanding is that transaction costs are theoretically indistinguishable from regular production costs. The theoretical distinction is that transaction costs vary under alternative policies and institutions whereas production costs are fixed by tastes, technology and endowments. Another misunderstanding is that market failure concerns only Pareto efficiency. Market failure also concerns social efficiency with respect to the "social welfare function," a device for making explicit ethical judgments about the interpersonal distribution of welfare. A third misunderstanding is that the "rationality assumption" drives economic theory. In fact, the explanatory power of economic models comes mainly from explicit assumptions about the constraints facing economic agents. A fourth misunderstanding is that welfare economics is used as a mechanism for making legal and political decisions. Rather, welfare economics is used as a method for informing legal and political decisions by evaluating their outcomes on the basis of individual welfare. Used properly, it can improve the democratic process by bringing hidden costs and difficult issues to the attention of both policy-makers and the wider public.

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