VIEWPOINT: ECONOMICS AND AFFIRMATIVE ACTION IN A DEMOCRATIC SOUTH AFRICA: ABOUT VALUES, WELFARE AND CHOICE AMONG ALTERNATIVE INSTITUTIONS IN THE FACE OF CONFLICT

Johan van Zyl
Faculty of Agricultural Sciences, University of Pretoria, Pretoria

'Freedom of the pike is death for the minnow'

Isaiah Berlin

'Our world is an eighteen wheeler full of dynamite, careening down the headway with the pedal to the metal - and the driver is little more than a monkey driven by a mishmash of outmoded emotions and the mistaken illusion that he is something better'.

Jon Franklin

This viewpoint argues against 'the high priest role' of economic analysis and economists 'playing God'. When there are conflicting interests, as is the case between races in South Africa, economics does not provide tools for solving or abolishing this conflict. In the end the economist is still left with the need to choose between conflicting interests. The best that economists can do is to try to understand this conflict and to provide information which can be the background for policy-makers and people when choosing preferences and institutions. This includes both value and value-free knowledge when predicting the substantive consequences of change and alternative rights for the different races in South Africa. However, even only providing information does not free the economist from taking sides in the face of conflict; the plea is therefore to explicitly account for his/her own value judgements or that of the institution being served.

1. Introduction

Little that happens in economic life does not have a distributional impact. Whose interests then count in economics and politics? This viewpoint addresses part of that question. The reason for it is to enable economists to better choose between alternatives and promote institutional change.

Where people and interests conflict, as is the present case between political groupings in South Africa, can the economist offer any prescription of what should be done (what is good or bad and right or wrong)? What can the economist say about the choice between alternative institutions and rights? These questions are the concern of that part of economics (welfare economics) that ranks the system of rules which dictates social behaviour (Schotter, 1981:6). In this viewpoint it is argued that the economist cannot provide simple answers to these questions, although he can provide useful information to help take such decisions. Where prescriptions on rules are made by the new welfare economists, these are shown to be disguised value judgements and preferences for the interests of A over B.

This is done by briefly illustrating the unequal access to resources, markets and inputs that influence the distribution of wealth, income, power and rights among different race groups in South Africa. Pareto-better efficiency as well as alternative measures of performance for choosing among institutions, namely efficiency, growth, cost-benefit analysis and freedom, are then evaluated given this distribution and unequal access. The viewpoint also addresses the question: Is there a better alternative? It concludes with some implications of the argument for choosing between alternative institutions by economists in South Africa. The arguements closely follow those of Schmid (1987) and Samuels (1988).

2. Distribution of wealth, income, power and rights between race groups

Whose interests count when interests conflict? This question is especially relevant in South Africa, where structural economic imbalances between race groups are manifested in symptoms of inefficiency and inequality (Fenyes et al, 1988). This in turn is related to the cause of such symptoms, namely unequal access to resources, inputs, markets and power. At present access is determined by a number of barriers of a physical and institutional nature. A few examples of such barriers in agriculture serve to illustrate the degree of integral access between different races in South Africa.

A primary cause of unequal access is the existing distribution of rights to land which was established in accordance with the Black Land Act, No 27 of 1913 and the Development Trust and Land Act, No 18 of 1936. The most immediate effect of this legislation still is unequal access to land as a factor of production between farmers of different race groups. A further effect of the legislation, together with the Black Administration Act, No 38 of 1927, is the rudimentary state of the land market in the self-governing states (Vink, 1986). A related result is the distance of most farmers in the self-governing states from major metropolitan markets, not only spatially but also institutionally with regard to access, market institutions, transport and communication.

Not only is access to land and product markets unevenly distributed among farmers, but the physical infrastructure which serves farmers is not evenly distributed as regards quantity or quality. Roads, dams, rail and communication links, for example, do not reflect regional comparative advantages in the physical potential for farm production. The institutional infrastructure, including extension services, cooperatives, farm credit institutions and organised agricultural lobbies also differ in terms of availability and quality. So does the social infrastructure which was influenced by factors such as the Group Areas Act, No 36 of 1966, which affected labour mobility; educational disparities, which influence opportunities, management training and entrepreneurial developments; and the lack of political entitlement.

Some of these constraints are the result of a lack of entitlement, for example in the form of legal barriers, while others reflect the lack of infrastructure. These constraints seriously influence the distribution of income, wealth and power among race groups. Although the examples above are limited, the same inequalities exist throughout the South African economy. This skew distribution and its origins have serious implications for economists with regard to values and economic analysis.

3. Pareto-better efficiency

What do economists make of these inequalities? They are careful not to argue that the authority of science gives them the right to be prescriptive. An economist seldom makes an argument for why A should have a right and B suffer limitations. How do economists who eschew authoritative value judgements of A over B then decide on which institutions are better? The route is through the maxim of Pareto-better efficiency (Schmid, 1987:212-218; Samuels, 1974; Buchanan and Tullock, 1962:92).

The maxim of Pareto-better efficiency apparently enables the economist to steer clear of the choice between A and B and still have some expert advice on the choice of institutions. If no one is going to be worse off, everybody ought to embrace the economist's recommendations. The economist thus proceeds to ask how each subject can maximise welfare without infringing the rights of others. The essence of Pareto-better efficiency is the separation of resource allocation and income distribution. The distribution of wealth is acknowledged to be a political question. However, if it has already been determined, the economist asserts that rational people cannot reject his advice (Schmid, 1987; Samuels, 1984).

A more technical discussion is necessary to understand the implications of Pareto-better efficiency, but not in a detailed manner, since numerous texts on the subject already exist (Ochs, 1974; Samuels, 1974; Burkhead and Miner, 1971; and others). In an Edgeworth-Bowley box diagram, the conflict curve defines the points of conflict between two parties given the original ownership distribution of two goods. Any point off this curve is inferior, and ignoring transaction and information costs (Johnson, 1987).Pareto-better trades can get to the curve.

Where parties finish up along the conflict curve, depends on their relative bargaining power, which is a function of their relative opportunity set (Samuels, 1974). If one of the parties has much property and many other alternatives relative to the other, the stronger party will make the best deal by forcing the price to the end of the conflict curve which is most advantageous to him. This situation cannot be understood from knowledge of original factor ownership alone, but is at least partially determined by the rights that each party has that give them bargaining power. The personality of individuals involved also plays a part.

There are many Pareto-better solutions rather than a unique one, even within the lens, and there are many outside it if rights change. It also illustrates the role of the original rights distribution. If one starts at a different distribution of the two goods, one would reach a different conflict curve, which too would be Pareto-optimal. Pareto-optimality is thus only relative to a given original rights distribution and does not indicate what it must be (Schmid, 1987). Randall (1972:25) states: 'Efficiency is an inadequate criterion, because what is efficient changes as rights, the distribution of wealth and income change. Just to demand efficiency leaves open the question of which of the infinite number of theoretically possible efficient solutions is preferable'. Worcester (1972:58) states that 'making the better choice between two sets of rights is a minor matter as the need to establish some set of rights'. Steiner (1970:40) suggests economists should agree 'some way, any way' on social values and then use them to guide choice of institutions. It is however one thing to be neutral between people in their struggle to obtain rights, and quite another to argue that it is a minor aspect.

Is the Pareto-maxim ethically neutral? At first it looks like a theory that should have wide acceptance, but it implicitly gives stature to the original distribution of rights, wealth and income (Samuels, 1972:68-93). To accept that only Pareto-better trades are legitimate, is to accept the original distribution of rights to be legitimate. The Pareto-maxim neither suspends judgement, nor frees the economists from choosing between A and B, but rather accepts the choice between them already implicit in the existing distribution of rights, wealth and income. All statements of Pareto-optimality should thus be read as the conditions where welfare is maximised, given the original distribution of rights, wealth and income. Since Pareto-better efficiency just carries out given rights, it cannot be used to select these rights. The economist must not avoid a moral choice between A and B by employing the Pareto-maxim (which only confirms the choice already made) so as to imply that it should continue. This argument puts the ethical choice and value judgement between conflicting parties back on the centre stage of public choice.

4. Alternative measures of performance

Schmid (1987: 127-241) lists various alternative measures of performance that have been suggested in the literature to guide institutional choice under the guise of increasing social welfare. They are not, however, value-neutral rules and as such, they are deceptive. In honesty, they should be put forward as the explicit value judgement of the analyst. This critique can also be extended to the conventional performance categories of efficiency, growth, benefit-cost analysis and freedom. These categories require further discussion.

4.1 Efficiency

Economic efficiency is a concept from engineering and physics with values attached (Johnson, 1987). It is simply an abstract expression of the ratio of values of selected input to selected output. It is rights that do the selecting (Schmid, 1987: 234). The content of the input and output, and their values, are determined by the relative opportunity sets of individuals, based on the choice of antecedent rights and their choices from within those sets. Choice in period two is a function of choice in period one. Efficiency is the derived result of the prior choice of the content of the input and output categories and not a guide to the choice of alternative sets of categories. There are, therefore an infinite number of efficient solutions, each subsidiary to the choice of rights, which define the content of input and output. Rights determine efficiency, not the other way round.

There is also possibly an inherent conflict between efficiency as used in this sense (as is usually done) and the micro economists' theory of efficiency. Consider production, Y, and two inputs, X_1 and X_2. Efficiency is often measured as Y/X_1 and Y/X_2. If either Y/X_1 or Y/X_2 is a maximum, production takes place at the boundary between the rational and irrational zones (the same argument also holds if there are more than two resources, or if Y is multidimensional with many products). In a physical sense, efficiency is maximized by maximizing returns to the scarcest resource (Liebig's law of the minimum - Groenewald and Van Zyl, 1986). But when rights determine efficiency, with those with more rights having their way, this concept of efficiency is maximised with maximum returns to an abundant (and not scarce) resource. Such a point of maximum efficiency is clearly sub-optimal.

Parsons and Smelser (1976:16) refer to system maintenance as one of the performance elements of political transactions. It is no good to maximise some material output if the country then erupts into civil war. A given group either loses consistently and its participation is coerced, or it wins some and it loses some, so that overall it agrees to play the game. Where there are conflicts of interest, it is not possible to ask only in general whether an institution is efficient; the economist must also ask whom it benefits.

4.2 Economic growth and productivity

The concepts of growth and productivity are closely related to efficiency. It is commonly argued that rights should be structured in such a way as to promote growth or maximise the net value of production. However, there are problems in using these concepts because of their ambiguity (North and Thomas, 1973:4).

The economist finds it hard to argue against an arrangement that maximises net social benefit. But what does it mean to account for all costs if interests conflict in the face of scarcity? When A's opportunity means a cost in the form of a forgone opportunity for B, and vice versa, then it is impossible to consider all costs simultaneously. Value of net output is not independent of rights, but is itself a partial function of rights. It is possible that what first appeared to be a profitable output-expanding transfer is that no longer. It depends on what is included in output and what is considered as growth. Cost is thus not something given, but is selected by public choice of rights.

The above does not mean that nearly universal gains are impossible. But no economist can conclude that gains exceed costs and call it social progress, while leaving distributional issues to others. It is no good saying that the first consideration is to maximise output and then let the political process or some other institution decide how to divide output (Schmidt, 1987:246). It is the political process of establishing rights that defines growth and efficiency in the first place. Those who are necessarily displaced when one type of growth is chosen over another must be asked if they prefer a share of the new product to the rights they enjoyed before (Mogenstern, 1972:1169). Only then is there some degree of certainty that everyone gains, rather than hiding the preferences for one group's taste over another's. Such a requirement, however, preserves the original distribution of rights and loses its validity in the South African context as discussed in Section 2.

4.3 Cost-benefit analysis

Some economists are of the opinion that alternative institutions should be (and are) chosen by weighing total benefits and costs (Anderson and Hill, 1974; Posner, 1972), assuming given relative prices. They then rely on Pareto-better efficiency. This approach has all the problems discussed above, plus the additional complication that some people are actually left worse off (compensation not paid) (Schmid, 1987). The analysis depends on who counts when interests conflict by choosing rights at one level, while taking another as given and unexamined. A cost-benefit analysis of alternative rights always assumes some set of rights, and therefore cannot be a guide to rights, unless prior rights are legitimated, which means it is only a partial analysis. This has its place as long as its presumptions are clearly understood, labelled and accounted for - it can only be used when analyzing how rights affect a particular group interest.

An example is provided by the theory of 'induced institutional innovation' (Hayami and Ruttan, 1985). They regard institutions as endogenous to the economic system and change results from exogenous change in factor prices influenced by technology and population. This theory predicts that efficient institutions will develop to make it possible for marginal cost to equal marginal income, which may have been in disequilibrium due to exogenous changes.

Induced institutional innovation theory has a hidden presumption of desired income distribution. It portrays rights as determined only by natural forces, with the result that any human and cultural factors therefore only affect the speed by which presumptively efficient institutions are reached or result in bad institutions that do not fit nature. This theory is part of the power struggle used by different groups to obtain institutions favourable to them (Schmid, 1987; 1986).

4.4 Freedom

Voluntary trade gives the appearance of freedom (Stigler, 1975; Friedman, 1962). No trade will take place if each party did not perceive themselves as better off. But this masks underlying factors, because the argument above requires the economist to look at a step prior to trade, namely how the parties obtained the goods to be traded. After it is decided that A has many goods and B has few, the economist can note B's efforts to rearrange his few goods into a better mix. If A agrees to trade, both are better off, but B's wealth is still small relative to A's. Who says that this has to be? Why is it that when A's interests conflict with B's in access to limited resources that A is more often the one to be found to have the right? Why is it that B is mostly in the position of seldom creating a cost for A, while A has much that is a cost to B? Prior to the mutually beneficial trade is the public choice of rights. Where interests conflict in terms of this prior question of rights of each party, increased freedom for A is greater restraint for B (Samuels, 1976). This is the significance of the quotation from Isaiah Berlin at the beginning of the viewpoint: in law, to treat unequal as equal is to elevate the stronger to a position of domination (Seidman, 1973: 556; Ely, 1914:555-618). For a man of little property, the freedom not to agree to a wage offer is the freedom to starve (Schmid, 1987:2-42).

Another corollary: Can a poor person afford to correct a wrong by suing the wealthy in an open court when he/she cannot even afford a third grade lawyer and the wealthy can afford the best?

The moral choice in any society is thus whose freedom counts when interests conflict in the face of scarcity. Where people conflict, global freedom is without meaning and only confuses the real conflict and ethical questions.

5. Better alternatives

Society expects economists to provide answers to policy questions in the face of conflict. The message of this viewpoint is the same as that of Robinson (1963) and Schmid (1987). The theories suggested by the new welfare economists are disguised value judgements and preferences for the interests of A over B.

When interests conflict, there must be a weighing of these interests. But who is the judge? Whenever the economist refers to society, the public or people wanting something, he has implicitly chosen one side or the other of the interests at conflict, without saying who gave him that right. To attach the term 'collective will' to some existing governmental decision or result is only to sanction what exists, not to provide a test for it (Schmid, 1987). A decision by government can hardly be a guide to what government should do. The same holds for any decision. It is always a function of a set of rules or rights that determines which conflicting interest shall prevail. In the end the economist is still left with the need to choose between conflicting interests. There is no better alternative.

When interests conflict, to ask what constitutes global social welfare is to deny that conflict, because the question is inconsistent with the reality of human differences. According to Schmid (1987), 'we stand naked in our differences without the clothing warmth of high priests, economists or otherwise'. Economics cannot abolish conflict - differences there will always be. But economists are capable of understanding conflict (Johnson, 1986; Dewey, 1922:34). So much conflict over alternative rights and rules is simply uninformed (Boulding, 1973:63). Knowledge about the consequences of proposed change does not remove conflict, but by providing knowledge the economist can make sure the conflict is over real differences in a world different people would want to live in, rather than some mistaken notion of what kind of world a new rule would probably produce.

However, the economist can provide information which can be the background for people choosing (learning) their preferences, both of goods (performance) and of institutions (rights). This does not by-pass the decision process by telling people they have already really made the choice that will now be known to them, along with the derived deduction as to the case in question. The argument in this viewpoint is not directed against the calculation of specific efficiency when objectives of the individual chooser are made explicit. Nor is it against values presumed in neo-classical theory or any other. It is, however, an argument against presumptive choices among conflicting interests contained in the calculation of global efficiency or as Schmid (1987) terms it, the 'high-priest role of economic analysis'. When there is conflict of interests, as is the case between races in South Africa, to speak of global efficiency is to make a value judgement weighing the interests of one party against another. The plea is for the economist to make his/her own explicit value judgements or that of the institution being served. To conceal objective functions means not specifying where a road should lead - it is shortsighted or dishonest or both. This is very relevant in the face of the unequal distribution of, and access to, wealth and rights between races in South Africa. The credibility and maybe continued existence of the present economics profession may depend upon it.

Economists can do much in predicting the substantive consequences of change and alternative rights for the different groups in South Africa. Information can prevent what Boulding (1973:63) calls the law of political irony: 'Political conflicts rests to a very large extent on a universal ignorance of consequences, as the people who are benefited by any particular act or policy are rarely those who struggled for it, and the people who are injured are rarely those who opposed it.... Bad definition and the failure of perceptual discrimination are perhaps the most important source for bad politics'.

Information also implies a return to research on values in economics. The shortcomings of positivism, Pareto optimality, conditional normativism and pragmatism for economists interested in problem-solving and subject matter research have prompted some economists to return to research on values (Johnson, 1986).

Hicks (1939) reformed welfare economics on the assumption that utility and welfare are intrapersonally measurable in an ordinal sense, but not interpersonally measurable, even in an ordinal sense. This reformulation greatly reduced the self-perceived capacity of economists to reach conclusions favourable to the forcible redistribution of rights and privileges, including the transferring of ownership of wealth from the rich to the poor. Cooter and Rappoport (1984) question this development and hold that Pigou (1932) and Marshall (1946) may have been at least partially correct in concluding that the marginal utility of income for the poor is cardinally greater than for the rich and that this justifies redistribution. Importantly, this tentative conclusion supports the possibility of doing some inductive empirical research as well as deductive, rational research on restructuring societies. The argument here is for at least entertaining the possibility of doing such research. Some cardinal inter-personally valid measures of changes in welfare resulting from satisfying basic needs is thus potentially possible and the five tests for the objectivity of this knowledge- coherence, correspondence, clarity, workability and comprehensiveness for the purposes at hand - are applicable. This establishes the point that at least some research on real values is possible, including research on values associated with satisfaction of somewhat less basic needs.

A review of studies on values in economics has been provided by McClennan (1983). Though these works tend to be more analytic than synthetic, they present progress in the area, in that they provide a basis for potential empirical work on values, decision rules, power distributions and prescriptions. There thus seems to be some basis for hoping that South African economists will distinguish more sharply, following Lewis (1955), between values (about goodness and badness) on the one hand and the prescriptive (about rightness and wrongness or what ought to be and ought not to be) on the other. It also provides hope that the results of research on values will provide a basis for reaching more objective prescriptions about how to solve the major structural and redistributive issues facing South African society. In doing this, it is important to differentiate between equality and equity. Equity has to do with justified or justifiable distributions of rights, privileges, power, wealth and income.

An equitable distribution is justified but not necessarily equal. By contrast, equality has to do with how equally rights and privileges are distributed. Equality may also be inequitable.

Research on values can do much in predicting the substantive consequences of changes in rights and institutions for the different groups in South Africa. However, it does not totally free the economist from taking sides; it only provides additional information for policy-makers and people when choosing rights and institutions. This is adequately illustrated by a quotation from Myrdal (1969): 'No social science can ever be 'neutral' or simply 'factual', indeed not 'objective' in the traditional meaning of these terms. Research is always and by logical necessity based on moral and political valuations, and the researcher should be obliged to account for them explicitly'.

6. Conclusion

This viewpoint argues against 'the high priest role' of economic analysis and economists 'playing God'. When there are conflicting interests, as is the case between races in South Africa, economics does not provide tools for solving or abolishing this conflict. In the end the economist is still left with the need to choose between conflicting interests.

The best that economists can do is to try to understand this conflict and to provide information which can be the background for policy-makers and people when choosing preferences and institutions. This includes both value and value-free knowledge when predicting the substantive consequences of change and alternative rights for the different races in South Africa. However, even only providing information does not free the economist from taking sides in the face of conflict; the plea is therefore to explicitly account for his/her own value judgements or that of the institution being served.

If economics and economists want to be taken seriously, first with respect to South Africa's racial problems and the total abolition of apartheid, but also as being 'objective', economists need to be eclectic (Johnson, 1986), diversive (Samuels, 1988) and pluralistic (Caldwell, 1982). This is very important in the face of the unequal distribution of, and access to, wealth and rights between races in South Africa. The credibility and maybe continued existence of the present economics profession may depend upon it, given the changes taking place in our society. This argument puts distributional issues on the centre stage when discussing a new economic policy for a democratic South Africa and makes a strong case for a comprehensive 'economic affirmative action programme' to address imbalances resulting from past policies.

Notes

1. For a critique, see Schmid (1986).
2. This depends on the marginal cost of getting better evidence for the statement in question, which, in turn, depends on the importance or value of the consequences of accepting and acting on a false statement or of rejecting and not acting on a true one (Rudner, 1953).
3. Examples include the work of scholars such as Sen and Williams (1982), Nosick (1974), Rawls (1971), Harsanyi (1977), Thurow (1973), Baumol (1982), Okun (1975), and others.

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