

# Burning in Moral, Drowning in Rationality? Ethical Considerations in Forming Environmental Policy

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## Abstract

We have experienced an increasing use of both economic and political instruments in attempts to induce households to contribute to sustainable development. However, there is a lack of understanding of how these tools interplay with the motives held by

households and the daily constraints they face. The purpose of this paper is to give some anecdotal evidence on how moral motives may affect different policies in force, and to give some insights on how to proceed in designing policy instruments compatible

with sustainable household behaviour. I conclude that some households have learned to appreciate the reward of economic incentives, but that we also need to acknowledge that environmental morale may affect the support of such economic instruments.

**Keywords:** Ethics — moral behaviour — households — recycling — waste handling — policy implications

## INTRODUCTION

Local and national authorities use both economic and political instruments in their attempts to induce households to contribute to sustainable development. However, there is a lack of understanding of how these tools interplay with the motives held by households and the daily constraints they face. In the environmental field there is an ongoing debate whether the economics profession is up to the job of solving environmental problem with economic incentives. Frank Ackerman, research professor at Global Development and Environment Institute at Tufts University, claims that the problem in environmental policy evaluation is “the invasion of abstract economic theory [which] threatens to impose the logic of the marketplace on the very different reality of nature”, and continues “There is an urgent need for a more realistic economics of the environment, with theories and analyses that can help to create environmentally sustainable economic activity. The new field of ecological economics offers promising first steps in this

direction; and there is a continuing role for critiques of the misuses of conventional theory in the realm of public policy”. (Ackerman, 2001).

How should we then go about creating such ‘realistic economics’ for use in the policymaking process? Individuals’ ethical compass guides them in making decisions about environmental concerns. At the same time institutions prevailing in society affect this compass and are amenable to change (North, 1993). Economic activities, like all social phenomena, are therefore necessarily embedded in culture, which includes all kinds of social, political and moral value-systems and institutions. These profoundly shape and guide human behaviour by imposing obligations, enabling and disabling particular choices, and creating social or communal identities, all of which may impact on economic behaviour. Since there is a lack of knowledge of how households perceive and why they choose to (or not to) comply with environmental policies and intentions, we therefore require a multi-disciplinary approach, which combines both moral and economic analyses of behaviour. In

the environmental field, households and household behaviour are still somewhat of a 'black box', i.e. we know relatively little about how household members organize their recycling activities and how moral considerations translate into actual behaviour.

A start, therefore, would be to incorporate other social sciences into the field of economics. As economics moves beyond criticism and on to the task of building a more relevant and robust economic science, one challenge is to develop a theoretical framework that will guide pluralistic input from a variety of disciplines and approaches. Some useful guidelines for the development of such a framework may be, and indeed to some extent already are, found in the fields of sociology, political science and psychology.

My focus on these issues will stay within environmental economics although everyday examples sometimes will be used in the present paper. Usually two opposing camps dominate the view of economic behaviour regarding environmental issues. First there is the 'consumers' who respond to economic incentives and make rational choices determined by their preferences and the constraints they face. The traditional economists generally represent these. On the other hand we have the 'citizens' who make decisions based on their value orientation, i.e. they may refrain from individual short-term gains if society at large is better off in the long run. In order to analyse what this means for the efficiency in which environmental policies are implemented, we need to bridge the gap between these two extremes allowing a broader conception of human behaviour. The definition of 'consumer' as an autonomous rational optimizer may be too narrow and does not allow for the roles of other determinants such as ethics, class and other social factors in shaping the economic psychology of social agents, and likewise to assign the 'citizen' to human beings who feel that nature has its own indisputable rights that must be obeyed, does not capture the views of most individuals.

The premise of this paper is that individual's environmental stance is liable to be interrelated with specific ethical positions, which may be amenable to change by economic incentives and/or legislation. However, it has been shown that some means to promote action may be inefficient or even counterproductive (e.g. Berglund, 2003). We therefore need progress towards a deeper

understanding of many important aspects of economic life. There has, however, been some progress in this area within the social science field (e.g. Frey 1999a, 1999b), an issue we will revert to later.

The purpose of this paper is to give some anecdotal evidence on how moral motives may affect different policies in force, and to give some insights on how to proceed in designing policy instruments compatible with sustainable household behaviour.

The paper proceeds as follows. First, I present a brief overview of the literature on households' sustainable behaviour. Then I briefly define the role of individuals as consumers and citizens and explore if they are compatible or in conflict with each other, before a description of the nature of people's moral behaviour is explored. Finally, some conclusions are drawn.

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#### **RESEARCH ON HOUSEHOLDS' SUSTAINABLE BEHAVIOUR**

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There exists substantial empirical research on households' material conservation and recycling behaviour. Earlier research efforts have focused largely on the demand for waste at the household level and how economic incentives can be employed to affect the production of waste and recycling behaviour (see e.g. Fullerton and Kinnaman (1996); Jenkins (1993)). Another line of economic research, e.g. Bruvold (1998), employs cost-benefit analysis to assess the social benefits and costs of recycling programmes (in comparison to incineration and landfill, etc.). An important part of this research has been the valuation of households' time spent on sorting and cleaning activities. Finally, in many willingness-to-pay studies, households often express strong support for, e.g. green electricity, but these same attitudes are seldom reflected in actual behaviour.

The main strengths of the above research endeavors are their focuses on: 1) real-life resource scarcities (i.e. time and budget constraints); 2) willingness to pay estimates; and 3) policy relevant questions (e.g. economic versus administrative policy incentives). However, what is in common for the above economic studies on household recycling is that they build on restrictive assumptions about human behaviour (e.g. rational and utility maximizing individuals), and thus largely neglect issues of moral motivation.

This is in spite of the fact that other strands of research conclude that motives do matter and that people undertake recycling activities and buy environmental products largely for moral reasons.<sup>1</sup> There exists therefore a need to complement the economic studies with ethical and psychological considerations. In a study on recycling behaviour in a Swedish municipality, Berglund (2003) shows that households who take a strong positive moral stance to waste sorting are more likely to 1) express a relatively low opportunity costs of the time devoted to these activities; and 2) respond negatively – in the sense of feeling discouraged to undertake more recycling activities – to the introduction of economic incentives in the waste management field.<sup>2</sup> This shows the importance of applying a multi-disciplinary approach to households' sustainability activities, i.e. one that draws on the lessons found in the economics, political science and psychological literature.

#### THE ROLE AS CONSUMER AND CITIZEN: ARE THEY IN CONFLICT?

We have already mentioned what we mean by 'consumer' and 'citizen', assigning the 'consumer' as an autonomous rational optimizer and the 'citizen' as a team player who puts society's interest before his or her own interest. Assuming that we agree with these descriptions, are we *either* consumers *or* citizens? Can we be both? What about the neighbour who is a member of the green party yet at the same time drives an old car polluting the environment?

To answer this we first need to properly define our two extremes and for descriptive purposes exemplify with some familiar scenarios. Sagoff (1988) has argued that the literature on environmental valuation fails to distinguish between the individual's role as *citizen* and *consumer*: "As a *citizen*, I am concerned with the public interest, rather than my own interest; with the good of the community, rather than simply the well-being of my own family.... In my role as a *consumer*, [...] I concern myself with personal or self-regarding wants and interests; I pursue the goals I have as an individual" (Sagoff, 1988, p. 8). Are we either or, then? Individuals can have multiple preference orderings, applying different preference maps in different contexts (Arrow, 1951; Hausman and McPhearson, 1996). For example, individuals will presumably easily take a 'consumer' point of view

when asked to value a market good, such as a Sex Pistols album or beer. However, when confronted with issues remotely related to personal interests but closely related to collective interests such as environmental issues (e.g. air quality), the same individual will presumably choose the 'citizen' point of view.

The reason for acting as the green party neighbour is not that he is necessarily 'immoral' or that he is acting without ethical concerns in this particular context, but rather that he responds to the constraints he faces; an old polluting car may be the best he can afford. Thus, in real life we observe that people do respond to economic incentives. Consider another example of a tax increase on gasoline; we do identify a cut-back on consumption when such tax increase is made. This is in line with our consumer perspective. Nevertheless, that same person may for example recycle as much as possible without any consideration of the costs involved since his/her ethical compass guides them to (if the costs involved are not too high).

#### *The Nature of People's Motivation*

Traditional economic models usually take a utilitarian ethics approach, i.e. they assume that people only consider the outcome of their actions and, as established, assume that people systematically react to changes in the constraints. For example, a price increase (in relative terms) is expected to reduce the consumption of the more costly good or induce people to engage less in the relatively more costly activity. Our definition of a 'consumer' fits this description. However, it seems that in many environmental issues people tend to take a rule-based ethical stance and that some persons may value the process itself. People may not particularly like certain results but practise the activity if it adds sufficient value to the procedure as such (Sen, 1977). This is in line with our 'citizen' point of view and a price change would have little or no effect in this case. It may even be counterproductive if a non-priced good is artificially priced due to demoralising mechanisms of human behaviour. Our motivation for environmental issues can thus be divided into outcomes and actions.

In a broad sense we can claim that individuals have two different main motives, viz. 1) intrinsic motives, where the person likes the activity in itself; 2) extrinsic motives, where the person does

it because of monetary payment or because of order. An environmental application to this is that one can do it either because our environmental consciousness tells us to do so (if the costs are not too high) or because we are told to do so by authorities, or that it is financially beneficial. How is it then in our everyday life? Has the *consumer* taken over the economy while the *citizen* is out to lunch? That is, are judicial interventions and economic incentives the only things which matter for people to undertake an environmentally beneficial activity?

Berglund (2003) looked at some of the key responses related to the individuals' motives for waste sorting in a Swedish municipality; these responses are summarized in Table 1. We should, however, first note that most respondents reported that they sorted most of the types of waste fractions they generate at source. In other words, overall the respondents complied well with the requirement imposed on them to sort and clean their waste.<sup>3</sup> Furthermore, Table 1 shows how the respondents perceived different statements about possible motives for undertaking waste sorting activities. It is worth noting that the respondents are heterogeneous with respect to most motives for sorting waste at source. For instance, roughly half of the respondents claim that they sort partly because they want to think of themselves as a responsible person, while the same proportion sort partly because it is a requirement imposed by the authorities. Some agree that they sort because it is economical for them as a person while others do not. Thus, the respondents are spread 'all over

the field' with respect to most of the statements presented to them.

#### *Crowding Theory*

Recent research has approached the problem by analysing people's intrinsic and extrinsic motivation to environmental issues (e.g. Frey 1992, 1999b). The conflict between consumer and citizen roles is actualized by this debate since purely economic incentives, such as prices, sometimes fail to reach the goals set. One of the most important and empirically best-founded reasons for this is described within crowding theory and points out the destruction of intrinsic motivation. When an external intervention in the form of a reward reduces individuals' intrinsic incentives to act it is referred to as 'the hidden costs of reward' (see e.g. Deci and Ryan, 1985; Pittman and Heller, 1987).

Frey (1999b) generalizes this 'hidden costs of reward' in two respects: 1) "All outside interventions can affect intrinsic motivation; in addition to *rewards* the same effect can come about by external *regulation* (commands)"; and 2) "External interventions *crowd out* intrinsic motivation if they are perceived to be *controlling* and *crowd in* intrinsic motivation if they are perceived to be *acknowledging*" (Frey 1995b, p. 399). These generalizations help us think productively about moral dimensions of policy problems and help us incorporate a dynamic dimension into our analysis, an aspect that often is missing in economic analyses.

**Table 1.** *Motives for sorting Waste.*

<b>I sort partly because:</b>	<b>Agree</b>	<b>Partly agree</b>	<b>Partly disagree</b>	<b>Disagree</b>	<b>No conception</b>	<b>No answer</b>
a) I want to think of myself as a responsible person.	49%	20%	6%	8%	7%	10%
b) I should do what I want others to do.	62%	13%	3%	6%	5%	11%
c) I want to contribute to a better environment.	73%	11%	4%	2%	3%	7%
d) It is economical for society at large.	31%	14%	11%	10%	22%	12%
e) I want others to think of me as a responsible person.	28%	13%	9%	25%	13%	12%
f) It is a requirement imposed by the authorities (state or municipal).	50%	17%	10%	11%	3%	9%
g) It is a pleasant activity in itself that brings me satisfaction.	26%	14%	15%	23%	10%	12%
h) It is economical for me as a person.	11%	7%	9%	41%	20%	12%

Source: Berglund (2003).

One illustrative example of this crowding theory is a case study of a 'token economy' where old people living in asylums were exposed to different economic incentives such as making their beds in exchange for vouchers. After some time these people were no longer prepared to do anything if they were not paid for it, i.e. they were 'demoralized' by the incentive structure presented to them (Frey, 1999b). In addition, many personal relationships are valued exactly because they cannot be bought and are taken out of the market sphere. Consider your own situation when you are having your best friends over for dinner. If they at the end of a (hopefully) nice evening started to insist on paying you for food, drinks, snacks, etc., your motivation for having them over again would probably diminish. On the other hand, if they ring you up the next day praising your cooking skills and thanking you for an exceptionally lovely night, you probably are more motivated to have them over again. The lesson learned here is that 'commercialization' can tear down moral values while support can reinforce them.

This is useful information when evaluating and designing environmental policies. Let us use recycling schemes as an example. Bruvold and Halvorsen (2001) argue that moral responsibility is a motive for people choosing to undertake time-consuming recycling activities. When evaluating recycling schemes, households' time used is a major component of the cost side in cost/benefit analysis. The size of this cost will ultimately depend on how people perceive their effort; if they consider the activity as a pleasant activity in itself, the cost should be much lower than if they perceive recycling activities as something forced upon them by authorities. Furthermore, governments have recently shown interest in the practice of implementing schemes charging households by the pound they discard. Such unit pricing or 'price-based' system is a way of authorities getting the prices right in order to reach the optimal level of recycling.<sup>4</sup> This scheme can be successful at first (think of this as an analogy of the beds made in the asylums), but over time people might not care for other environmental problems unless they receive financial benefits for doing so. Thus, to promote sorting at source, knowledge about people's intrinsic motivation is very important. The interesting policy implication is thus that if people undertake environmental activities such as recycling for moral reasons, pricing policies (e.g. a weight-based pricing

system) may crowd out ethical motivation and even lead to less activity undertaken!

Much more research needs to be done in this novel area of rationality and morality in environmental behaviour. Nevertheless, Frey (1992, 1999b) summarizes this discussion in a few testable hypotheses:

- The more control (in the sense of reducing the extent to which they can determine actions by themselves), and the more uniform control (less acknowledgement of differences in intrinsic motivation), intrinsic motivation is substituted by extrinsic control (crowd-in if intervention is informative, supportive),
- Outside intervention undermines the person's intrinsic motivation if this motivation is not acknowledged,
- Crowding out is especially strong for those who previously felt highly committed,
- The more the external intervention is contingent on specific performance, instead of being directed at general behaviour, the bigger is the crowding-out effect.

To sum up, since households often express moral motives for many environmental activities (some even find it a pleasant activity in itself) it is not convincingly the case that one should place a cost on all activities involved. That is, the utilitarian approach of cost/benefit analyses may not be fruitful for these purposes. However, given a rule-based approach, crowding theory tells us to be careful using 'wrong' incentives or controlling means.

## CONCLUSIONS

There has been an increased knowledge of how households perceive and why they choose to (or not to) comply with environmental policies and intentions; this requires a multi-disciplinary approach, which combines both moral and economic analyses of behaviour. Thus, it has been suggested to incorporate other social sciences into economics to create 'realistic economics' in policy-making. We can say a few things about this. First, it is important to note that economics can certainly also learn from other social sciences. In particular it is necessary to include the great variety of values, wishes, internalized norms, as well as aspects of perception that are transmitted by social processes into the economic approach. Moral philosophy, for instance, seems to improve economic analysis and the attentive reader also

notes that this facilitates dynamics to be incorporated into the economic analysis. Knowledge about human behaviour of this kind is important in order for policymakers to shape and implement successful environmental policies.

The title of this paper posed the question if we (i.e. individuals in general) are burning in morality and drowning in rational behaviour, and it is posed in the context of how we behave regarding environmental issues. In recent times, households have learned to appreciate the reward of economic incentives (which in economic terms makes them rational), but we also need to acknowledge that environmental morale is important if support of such economic instruments is to be given in the political arena. The goal for policymakers will thus be to balance the different motives properly in order to guide households to lead their lives in an environmentally sustainable way. To provide policymakers with such proper tools will be one new challenge for the economics profession in the future.

### Notes

1. Ackerman, F. (1997) and Hornik, et al. (1995).
2. For similar evidence on the relatively low opportunity cost of recycling time, see also Sterner and Bartelings (1999); and Bruvoll and Nyborg (2002). The latter point refers to the motivation crowding-out hypothesis suggested by Bruno Frey, which I will explore later. See, e.g., Frey, B.S. (1999b) and Frey, B.S., and Jegen, R. (2001).
3. SFS 1998:808 and SFS 1998:811 require households in Sweden to sort waste at source, and to clean and transport their waste to recycling centres.
4. There is nothing that says that the level set by authorities is the right level of recycling from society's point of view. However, that is another story and for simplicity we assume that we know the optimal level of recycling.

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