

# **THE QUEST FOR UTILIZATION VALUE**

**ECONOMY AS THE GOOD ORDERING OF  
INTERESTS**

**by**

**PAUL H.L. KLOPPENBORG**

**PROGRESSIO CIVIC ECONOMY SERIES 2**

**Edited by MARCELLO A.G. PALAZZI**

# **THE QUEST FOR UTILIZATION VALUE**

**ECONOMY AS THE GOOD ORDERING OF  
INTERESTS**

# **THE QUEST FOR UTILIZATION VALUE**

**ECONOMY AS THE GOOD ORDERING OF  
INTERESTS**

by

**PAUL H.L. KLOPPENBORG**

**PROGRESSIO CIVIC ECONOMY SERIES 2**

**Edited by MARCELLO A.G. PALAZZI**

## TABLE OF CONTENTS

Summary	3
Introduction	5
<b>Part I        On utilization value</b>	
1    The quest for utilization value	11
2    The ordering of interests	17
3    Will and rationality	25
<b>Part II       On rationality</b>	
4    A closer look at rationality in ordering interests	35
5    Rules of inference in order and chaos: particularity and process	47
6    Instrumental rationality and intrinsic rationality	69
7    Appropriate rationality: context, objective and faculty	85
<b>Part III      On market and state failures</b>	
8    The assumptions of mainstream economics and their inadequacy	97
9    Departures from the standard ordering of interests because of market and state failures	109
<b>Part IV      Beyond market and state</b>	
10   Property rights and Decision Accountability	135
11   The challenge of ordering interests for utilization value: the 'civic' economy	141
12   The case of Public-Private-Partnerships in handling externalities	163
<b>Part V       Towards the good ordering of interests</b>	
13   Conclusions on ordering mixed interests	195
Overview and Propositional Inventory	227
Footnotes and Bibliography	243



## SUMMARY

The welfare of our economies increasingly depends on adequately addressing the complex ordering of *mixed* interests. In different domains of society mixed interests of various kinds are emerging: general with self, public with private, tangible with non-tangible. Mixed interests trigger our attention because the complexity of their ordering challenges the applicability of the standard ordering devices: *market and state*.

In this book economy is viewed as *the good ordering of interests*, not as *the allocation of scarce resources* as it is traditionally in mainstream economic thought. From this different stance emerge implications for the theory and practice of addressing the complex ordering of mixed interests. This complexity stems especially from the *unplannable interdependences* between differently natured interests which are characteristic of externalities, whether environmental, urban or social.

Adequate ordering devices are then needed since neither the market nor the state can *intelligently combine interests' diversity* and hence cannot *synthesize complexity*. *Coherent superpositions* of interests which optimize the potential of individual and community do not occur by chance; they require the simultaneous application of various *modi operandi*, each with a different rationality.

Man is aware by personal experience of the different kinds of *rationality* inherent to human faculties: imagination functioning differently from thought, from intuition, from impulse and so forth. The solution to complexity lies in his choice of the *appropriate rationalities*; they are to be adopted according to different *contexts, objectives and faculties*. The rationality of the market which is appropriate for the 'candy-bar' type of allocation is more often than not too homogeneous for the complexities of mixed interests. Hence, economy has to *broaden its span* of rationality and *modi operandi* accordingly. In this context, the dichotomy of 'self' versus 'general' is no longer the appropriate paradigm.

Instead, we look at a continuum, with mixed interests at the heart between self and general interests.

Observations of economic life have shown us the emergence of innovative approaches to achieve the adequate ordering of mixed interests such as public-private partnerships, non-government and voluntary organisations. They have to date lacked any coherent conceptual framework as they were born out of sheer necessity to spur growth where it otherwise would not have occurred.

From observing the successes and failures within the domain of public-private partnerships, conclusions are reached on basic *features, capacities, faculties and instruments* of the initiatives outside market and state which do adequately address complexity. They together constitute a basic drive which is gradually pervading modern economies: *the drive for utilization value*.

Utilization value is to be sharply distinguished from the drive for self-interest maximization in a competitive market context. To nevertheless describe these innovative approaches as a product of self-interest maximization would obscure the *intentional* change in *modus operandi*. Such change is always required when interdependences among economic activities are a fact. Utilization value focuses on the best use of available interests in order to optimize the specific *added values* of households. The challenge is then to choose those interests' ordering devices whose premisses do not corrupt but *match* the proper nature of more complex configurations of interests.

This book investigates the rudimentary concepts which underlie these initiatives, herein named the 'civic' economy for lack of an established term. The book concentrates on the conceptual underpinnings and the mechanics which have the potential to address the increasing complexity on which the future welfare of modern economies depends.

## Introduction

This book focuses on the creative tension in ordering two primary forces - the individual household's and the community's - and the search for balance between the two. The household is understood as a citizen, a family, a corporate citizen (=the firm); the community as its context, respectively family, neighborhood, society. The underlying assumption of overriding importance is that community and individual *are not dialectically opposed*: the individual is not being viewed as the atomistic self-interest maximizer, nor is the community seen as the aggregate of self-maximizing individuals. Instead, *they make each other and require each other* with neither of the two gaining ascendancy. The sameness of prime driving forces that shape the two over-shadow the differences.

An important implication of this assumption is that individual and community can be conducive to the other's growth and fulfilment. *To prevent their fruitful forces from not being realized*, the excesses inherent to each are to be corrected so as to sustain a balance that accords full status to both. If one tends to be overshadowed, shoring up of the other is needed. The individual's *forces which might be of detriment* to his strength and wealth-producing power, as well as counter productive community forces are to be *checked and balanced*. By doing so more of the individual's and the community's potentialities will be fruitfully actualized; in other words, their endowed talents, resources and capacities will be better utilized. This is the *quintessence* of the quest for utilization value. The focus therefore is on the good configurations of interests, *not* on self-interest maximization. This perspective clearly implies a deliberate choice of stance.

Economists generally concentrate on either of the following:

1. Maximizing interests within a static framework of structured interests (*stable preferences*) - so called logistics economics, engineering economics.

2. Ordering interests towards an optimum and temporary *configuration* in a permanently dynamic equilibrium.

Mainstream economics mainly concentrates on the former. We focus on the latter. To search for the good combination of interests is like *wandering through a "limited chaos of interests"* and *selecting a momentum of non-chaos* according to one criterion alone: to achieve the most fruitful combination of interests for each particular task which society requires. This search for *incidental non-chaos* and fruitful alliance among different interests has not received much attention over the last decades of economic research. Economic theory has built models of behaviour based on the assumption of stable preferences. This has resulted in the perception of economy functioning as a mechanism hinged on the stimulus-response behaviour of its agents with most attention being directed towards its streamlining. In the majority of cases this implied an *ascendancy of the community's modus operandi over the individual's*, notwithstanding the ethical origin of the stimulus-source, be it authoritarian or representational democratic. For a few extraordinary but essential situations this could be legitimized, but instead the stimulus-response model of economy has pervaded most corners of society. Only and uniquely within the rules of this playfield, shaped by community can an individual freely perform as economic agent.

This produces a most severe problem. The operational devices which are pertinent to the functioning of community prevail over the individual's. The rules of this formal economy could neglect or hamper the full utilization of the individual's driving forces and *intrinsic* motivations, such as values, intuition, inspiration and enthusiasm, which may get compromised by *formal* market (consequentialist) counterarguments<sup>1</sup>. Hence, we will focus on a failure analysis of those economic phenomena in which one observes a mismatch of the prevailing market and state logic in the ordering of interests. Notwithstanding the attraction of diverting

---

<sup>1</sup> Sen A., ON ETHICS AND ECONOMICS, page 74.

question of the legitimacy of the community's ascendancy over the individual.

The phenomena we shall be studying result from an *ineffective* and *inappropriate* use of the market's invisible hand and the state's visible hand in ordering interests. Ineffectiveness of existing devices will occur when their instrumental rationality cannot deal with the problem at hand: in this case *externalities* occur. Inappropriateness will occur when instrumental rationality is applied to the economic actions which occur outside the standard market and state households, the so-called '*civic*' economy.

*Pin-pointing the causes of ineffective and inappropriate ascendancy* of the community's ordering logic over the individual's opens the venue for conceiving remedial vehicles for structuring interests such that the creative tension and fruitful balance of the individual's and the community forces are restored. To constantly research and update non-appropriate vehicles of interest configurations if and when empirical evidence shows that existing ones are inadequate ought to be the task of modern economics.

Hence we concentrate on the strengths and weaknesses of the adopted rationality in ordering interests: *how and in what way the rationality of communities functions* in comparison to the individual's. This will enable answers to be formulated on why, how, when and where these could conflict. From here we can reason on how we *could* - at the level of *instrument* - and when we *should* - at the level of *will* - balance the different rationalities.

The best starting point for the analysis of how to balance the mix of community interests (general interest) with individual interests (specific interest) is the study of externalities and '*civic*' households <sup>2</sup>, in part IV "Beyond

---

2 Palazzi M., Young R., Hesselink P., Kloppenborg P., TOWARDS THE CIVIC ECONOMY, Progressio Foundation Civic Enterprise Series Publication 1, Amsterdam 1990.

3 Case-experience consists of originating and implementing public-private partnerships in the complex interest configurations of

market and state". By focusing on the *real-life* problems of realizing complex urban development projects the ineffective or inappropriate ascendancy of either market or state becomes easily apparent. A major contribution of this study is achieved through induction by experiment with direct participants' observation in cases <sup>3</sup> of public-private partnerships, one of the alternative vehicle for ordering interests. The cases of part IV constitute the practical underpinning of the theoretical findings which are the specific subject of part V "Towards the good ordering of interests". To a failure analysis on the inadequacy of the traditional market/state ordering of interests we devote part III "On market and state failures". This is preceded by a study "On rationality", in part II, which defines the alternative logic applied in ordering interests. We will however start with the introduction of our main paradigm in part I "On utilization value".

To guide the reader through the thought process, captions have been added throughout. These are summarized in the "Overview and Propositional Inventory" for a first read and easy reference.

---

urban development. The following projects were undertaken: 1985-86 Rotterdam Waterfront, 1986-87 Schiphol Airport Distribution Zone, 1987 Arnhem Waterfront, 1988 Tilburg Leisure Complex, 1988-90 Gaborone Botswana International Trade & Exhibition Centre.

---

## **Part I**

### **On utilization value**

---



1. THE QUEST FOR UTILIZATION VALUE

Economy deals by nature ("ekos; nomos") with the rules of ordering communities. Especially with ordering the interests of households to maintain a fruitful and beneficial order among interests. Such order will be appropriate as long as it does not frustrate the distinct nature of interests and as long as it is directed towards orchestrating the tangible common results arising from the input of households.

*Economy aims at orchestrating the interests of households*

Interests - from the Latin 'inter-est', which means 'what is in between' - are understood as follows:

*Interests defined*

*"Any thing which creates or could create a relationship among members of a household or among households".*

From this stance interests include competences, resources, talents, objectives, returns and values, as shown in figure 1, since they all trigger relationships within and between households. They are therefore not restricted to those which are merely scarce as is the case with mainstream economics. The resulting variety is of a complexity not found with the classic concept of utility.

INTERESTS	
• competences	• returns
• talents	• values
• resources	• objectives

Fig. 1 Interests act as drivers for economic action

The resources a community possesses are not the only forces which generate the balance of short-term results and long-term capacity for wealth creation, in other words, sustainable development. The potential of latent combinations with other interests which are not possessed but of which an individual or a household can avail through its positioning in the proximity of other

*In this endeavour a key element is the propinquity of interests*

individuals or households can imply an even more fruitful order.

*Propinquity  
requires  
'existential open-  
mindedness'.....*

This condition we will relate to as the *propinquity* of interests. It indicates that the location of an individual household in a community is of importance, on condition that such potential combinations of interests can be actualized. The right man at the right place at the right time has always dominated the ordering of households and the modern saga of the best use of available resources is therefore not different from any other point in the history of mankind. What is necessary, therefore is openness to the essential added value of other households. Such openness to the essence of being is related to as "*existential open-mindedness*".

*.....in order to  
identify  
potentially  
fruitful  
combinations of  
interests*

The driving forces of a household are hence not restricted to a stable set of self-possessed interests nor to a set of stable preferences. This conclusion enables us to abandon the assumption of stable preferences. In other words, the focus is not on the possession of, but on the combination with other interests - *propinquity* of interests - in a context which is diverse both in terms of the nature of interests and of communities. This focus might prove more *effective* than self-interest maximization in a context of stable preferences. Whereas the latter deals with the so-called logistics economics, the former will concentrate on the creation of optimal configurations of interests.

Being *effective* is seen here from the perspective of the value which one's own talents can generate: the utilization of interests. This is disregarding the *distribution* of the fruits of such utilization, be it to the benefit of the self (self-interest) or to the benefit of the neighbour (charity) or to the benefit of the community (general interest). The interests of the self, of the neighbour and of the community can be respectively indicated as the returns accruing to the sphere of "I", "we" and "they" <sup>4</sup>.

---

<sup>4</sup> See A. Etzioni, THE MORAL DIMENSION, 1988.

One observes that interests by nature aim at being fulfilled and actualized; otherwise they cease to exist. Hence interests can be equated to the 'driving force(s)' of a household(s). Our study of economy and the good ordering of interests is therefore an analysis of the nature of driving forces or "*de naturis motus proprio*" of households. The good ordering of households is based on the pertinent analysis of the nature of interests, through a so-called "stakeholders' analysis". Such analysis aims at identifying the proper rationale, or answering the question of "*quae naturae sum ?*" with respect to the household. Interests being by nature directed to fulfill themselves require that the economic agent be compelled to decide whether to utilize interests or not: this is the quintessence of the economic act of ordering interests. *Creating value by utilizing one's talents* should hence be the ultimate direction in which any economic agent ought to strive for. Hence, we define "utilization value" as follows:

*Best use of available interests, endowed or developed, in order to optimize the common result of added values in a specifically selected context.*

*Utilization value defined*

The factors generating interests can be both possessed and non-possessed; i.e. tangible for property rights or non-tangible. The *propinquity* of diverse interests can be as important for the creation of value as the *ownership* of what traditionally is viewed as production factors: land, labour, capital, enterprise.

*Propinquity of interests is as important as ownership of resources*

Utilization value is based on the following premiss <sup>5</sup>:

"...freedom to participate in the market according to one's talents and preferences is the best vehicle for the productive use of human capabilities..."

of both singular households (e.g. enterprises) and individual agents. To *utilize* interests literally means 'to make use of, to make serviceable, to turn to practical

---

<sup>5</sup> See "THE HUMAN DEVELOPMENT REPORT 1990", United Nations Development Programme, New York, 1990.

account<sup>6</sup>. The quest for utilization value stems from the very essence of the economic act:

"...die Frage auf der Grundlage von Wirksamkeit der Kräfte aller Menschen..."<sup>7</sup>.

Orchestrating such constellations of interests *differs from* what is referred to by mainstream economics as *self-interest maximizing* behaviour insofar as *it assigns priority to a different objective*, as shown in figure 2. The priority it aims at involves the combination of skills and resources for the *creation* of a common result. The creation of this result has priority over its *distribution* to the self. In this it is different from self-interest maximization: *it rejects the orientation of economic action to the accumulation for the self*. It seems as if the question of "to be or not to be either a self-interest maximizer or a utilization value maximizer" amalgamates in the independent priority given to either of the following questions:

"I" possess or  
"We" create

**"To possess or not to possess"** in the case of self-interest maximization, as compared to:

**"To create or not to create"** in the case of utilization value maximization.

*The pursuit of utilization value being prior to the pursuit of self-interest does not compromise the latter, whereas the reverse does*

Possessing deals with the distributive aspects of what results from combining causal relationships whereas creating deals with arranging the (causal) relationships of added values per se. If priority is given to the former, then self-interest is the objective with other interests such as "We" and "They" as *competing*. If given to the latter then utilization value includes the interests of "We" and "They" as potentially *contributing* to the common result. The word *priority* is crucial because utilization value being prior to self-interest does not compromise either whereas the former having priority does compromise the latter. In other words, self-interest maximization with its focus on standard production factors does greatly restrict

---

<sup>6</sup>   ENCYCLOPEDIA BRITANNICA, Standard Dictionary of the English Language, Chicago, USA, 1962, page 1383.

<sup>7</sup>   See Dahrendorf R., DIE ZEIT - Symposium, 29 December 1989.

the latitude of combining interests to enable a fruitful outcome to emerge, as shown in figure 2.

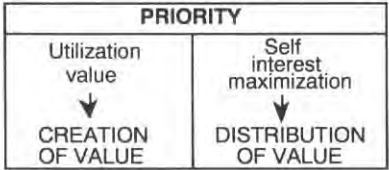


fig. 2 A different priority results in a different *modus operandi*

The *modus operandi* (= the mode of ordering a household's interests) practised in each case is thus not necessarily the same. To maximize utilization value the agent should act in such a way that he himself not only selects fruitfully but that he *will be selected* fruitfully by others as well. The hierarchy of self being prior to the other will *frustrate* the act of being selected, whereas *openness to the potential of "we"* will stimulate reciprocity and cross-fertilization with fellow economic agents. If in a given situation both types of behaviour occur simultaneously, then utilization value being prior to self-interest allows for a *one-chance game* only because economic agents focusing on utilization value do not allow a second opportunity to those who have practised a free-riding exercise in which self-interest was primary.

In practice, this means that "To create" being the priority leads to strategic alliances and value-added partnerships (VAPs), while "To possess" being the priority will most probably lead to (hostile) take-over bids. In this book we will concentrate on how and in what degree *economic behaviour can functionally differ* (ethical considerations apart), when utilization value is chosen as the *prime mover* for economic action instead of self-interest.

*A different  
priority results in  
a different  
modus operandi  
of economic  
behaviour*



## 2. THE ORDERING OF INTERESTS

Economic action always involves the ordering of interests. Interests should be orchestrated in the search for the good order, i.e. the optimal actualization of interests which leads to growth. In ordering interests a choice of priority has to be made. Utilization value can be the priority: actualizing interests to produce a common result, as seen in figure 2 of chapter 1. This can be achieved either within the household or within a set of households. Inherent to the quest for utilization value is the cultivation of interests at the level and in the context where they contribute most fruitfully to the common results. Thus utilization value adopts the subsidiarity principle.

To study how utilization value can be achieved, we focus on the analysis shown below. The heading of each of the 3 groups of questions is divided into 2 parts: the heading on the first line refers to the theoretical aspects, the heading on the second line to the practical.

### 1. Identifying the nature of interests: Stakeholders' Analysis

What is the bare essence of a community ?  
What is the essential common result which sustains a community ?  
What is the prime mover that sustains a community ?  
What is the intrinsic contribution by the distinct members of a community ?  
What is the intrinsic added value of a community towards its members, its environment and vice-versa ?  
What tangible results are essential to sustain the community's added value ?  
What conditions and requirements derive from the community's intrinsic added value ?  
Where does the intrinsic added value stem from ?  
Which faculties generate the intrinsic added value ?

### 2. Ordering interests into a project : Strengths and Weaknesses of stakeholders

What constitute unique driving forces ?

*Method for  
ordering  
interests towards  
utilization  
value: the  
inductive part*

*What interests  
do stakeholders  
have ?*

*What constitutes  
specific added  
value ?*

What motivations, objectives, external goods, internal goods are specific to the project ?

Which alternative combinations of driving forces could exist among different households ?

What are the constraints to driving forces ?

What priority among driving forces should apply ?

Which driving forces have what priority within each household ?

Which ends have primacy over which means ?

*What is the proper interests' ordering process ?*

3. Organizing for good interest configurations:

Processing of interests

What process is proper for ordering driving forces ?

What process is most appropriate to the nature of interests to be ordered ?

What process is proper for the formation of ends ? <sup>8</sup>

How is the primacy of ends over means protected ?

How are driving forces among households ordered ?

How are interests of different nature balanced without one unduly predominating ?

Who are the ordering parties and how are they selected ?

These analyses are each of a different nature, as follows:

1. Intrinsic analysis

Concentrating on what belongs to the real *nature* of a household, independently from external circumstances.

2. Comparative analysis

Concentrating on the relative weight of relationships within one *project* or object and interactions thereof, in comparison to other interests and/or households.

3. Process analysis

Concentrating on the human side of interests' ordering *processes* within and among communities.

---

<sup>8</sup> Etzioni A., Op. cit., page138.



The answers to these groups of questions are themselves the premisses underlying the interests' ordering device.

The above focal points and analyses for the good fruitful order can be implemented at *various* levels of household: be it a national or regional economy, a firm or an individual economic agent. But every household will answer the above questions differently. And since the answers determine how driving forces are ordered, communities and sets of communities - societies - apply different devices for ordering driving forces and organizing interests. *They vary from the political hierarchy of the state mechanism, to the invisible hand of the market to the personalistic clan allocation of closely knitted, small communities in informal economies* <sup>9</sup>. Different kinds of societies can therefore be distinguished: from communist to social market oriented and capitalist societies.

*The interests' ordering device remains appropriate as long as its premiss matches the premisses imposed by the nature of interests to be ordered.* The set of *stable* premisses and preferences derived from these answers will no longer apply nor the device itself if overlapping and shifting interests of different natures prevail. This is the case of complex interest configurations.

From new answers derive new sets of premisses and new alternative devices for ordering interests will emerge (see figure 7, chapter 11). For example, with current *overlapping* technologies and markets <sup>10</sup> interests overlap too; households will answer the above questions differently and will require *diverse devices for ordering interests* as well the ability to operate through *different devices simultaneously*.

We will limit our attention in this study to the overlapping interests among *public and private*

*The answers to the questions raised by the interests' analysis are themselves the premisses underlying the ordering devices*

*Hence, interests can be ordered through a variety of different vehicles*

*These vehicles function as long as their premisses hold*

*Increasingly, overlapping interests reinforce the need for different devices.....*

---

<sup>9</sup> Hesseling P., KRINGLOOP VAN KENNIS IN ECONOMISCHE ORGANISATIE'S, 1984.

<sup>10</sup> Drucker P, 'The futures that have already happened', THE ECONOMIST, October 21, 1989.

households where alternative vehicles are needed as shown in figure 1.

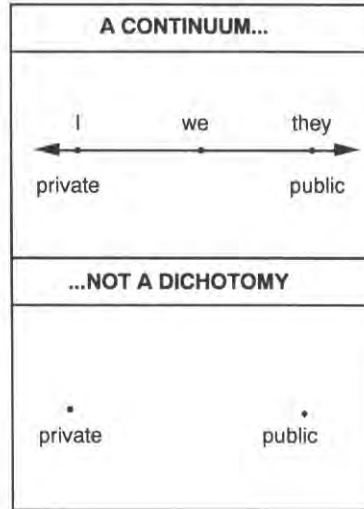


fig. 1 Interests overlap because of their continuous nature

.....for example,  
overlaps of public  
and private  
interests require  
public-private-  
partnerships

An example is the case of overlapping interests in the production of chemicals which is a private interest, and its waste or environmental management which is a public interest. Or investments in inner city real estate as a private interest and urban renewal as a public interest (e.g. Arnhem Rijnsoever, Rotterdam Wilhelminapier). Or commercial office developments as a private interest blending with the development of an exhibition hall and a national shop window as a public interest in the case of the BITEC project in Botswana. In chapter 12 we will concentrate on one such *alternative vehicle* for ordering overlapping interests: *public-private partnerships*. Furthermore we will see that the so called 'civic' economy may provide for various other alternative devices, e.g. NGOs, charities, cooperatives and the like.

Premises are not  
neutral but  
ethically and  
functionally  
loaded

These devices have never been neutral. Neither neutral in their ethical content nor neutral in their functional implications for the interests and/of the communities being ordered. Therefore a conscious political choice is to be made. It is difficult to locate the ethical contention

either in one or any combinations of the above premisses for structuring interests: this ethical assessment requires a separate approach.

The functional implications of the structuring vehicle on households and their interests can however be carefully addressed. They are the prime subject of this study. However difficult it is to locate their origin, we should carefully assess the nature of the implications of the ordering device on the functioning of households because it *profoundly determines* the tangible common result of any household. Its main repercussions prevail not directly, but *indirectly* via its influence on the individual members of a community <sup>11</sup>. It is inherent to the mode of operation, *modus operandi*, of the community's device for structuring interests that it pervades and compromises the functioning and the mode of operation of the individual too.

In addition, any specific intrinsic added value exhibits its own requirements as to its appropriate *modus operandi*. This may even lead to conflicting conditions as to which organizing device is best for two different intrinsic added values within a given industry. In the case of urban inner city renewal for example, the invisible market hand might be inferior to the visible planning hand, whereas the reverse might hold for the development of new urban settlements where planning easily results in too much of the same. Whereas in the first case diversity is present in an already existent urban setting and harmony hence becomes more important, no such urban diversity will exist in communities still to be realized so that the market is here more appropriate. Hence two different *modi operandi* are each appropriate for a given added value within one and the same industry. Again we conclude, as is the case with overlapping markets and technologies, that households do require *diverse devices* and will have to learn to *operate simultaneously with different modi operandi*.

*The premisses  
underlying  
different  
ordering devices  
should match the  
premisses of the  
added values  
sought for*

---

<sup>11</sup> See Vaclav Havel, *POGING OM IN WAARHEID TE LEVEN*, 1990.

We will limit ourselves here to the different modes of operation of various devices for structuring interests' and disregard any intrinsic conditions of any one specific added value of a given field of economic action (which has been the subject of earlier studies, e. g. urban redevelopment)<sup>12</sup>. Within this confine we will describe how interests are differently structured by the individual and the community in the next chapter. A distinct difference in the processing and the strengths and weaknesses of their *modi operandi* will prevail.

*The choice of an ordering device is determined by the prime added value sought for, not the reverse*

Once we *avail* of alternative devices, be it market, state or 'civic', we can select the most appropriate *modus operandi* on the basis of the conditions required for the organization of interests by a particular intrinsic added value. Having a more diversified set of interests' organizing devices than just market or state will enable the agent to choose a more appropriate route to organize interests in his field of economic action.

---

12 Kloppenborg P., Lambooy J., Priemus H., Tzönis A., Public-Private Partnerships, MSc. Thesis, TUD 1987, P. 25.





### 3. WILL AND RATIONALITY

Structuring interests is an everyday activity of any household. Everyday we are in the process of forming ends and assigning priority to certain objectives over others. Often we try to protect the primacy of ends over objectives in order to maintain the proper order which optimizes the common long-term result of *sustainable* development.

The prime mover in structuring all what is of interest to an individual is the capacity to freely choose: the will. Although the will of a community is formed differently from an individual's, we *assume* that the similarities overshadow the differences. In economics, a science which should analyse the *modus operandi* of a household, the formation of the will, its constituents and its direction are key activities.

The will is a conglomerate of faculties which enables an individual to formulate a direction. Its constituents may indefinitely vary from norms of behaviour, long-established objectives, feelings, physical needs, moral considerations, internalized values, blind instincts (drifts), psychological motives, informed reason, intuition. Often we only know the direction of our will or are conscious of what faculty constitutes the will. In both cases this is secondary to the very act of exercising one's will, that is to order driving forces into an action (or non-action).

At particular moments of choice, however, we do know both why and/or what causes us to decide in a certain direction. The *will* is then *conscious* of both the faculty and either the *cause* or the *end* <sup>13</sup> of a decision to act <sup>14</sup>.

*The will is the prime mover in ordering interests*

*Generally, we only know the direction of our will and its faculties*

*At some moments of choice we are fully conscious of the cause or end of our decision as well as of its faculties. These are the instances of conscious will*

---

<sup>13</sup> Armstrong A.H., AN INTRODUCTION TO ANCIENT PHILOSOPHY, London 1984, page 82: see Aristotle, Cause is meant as *Causa efficiens*, End as *Causa finalis*.

<sup>14</sup> Russel B., PRINCIPLES OF SOCIAL RECONSTRUCTION, London, 1923, Chapter 1, The Principle of Growth. Here he states as follows: "...My aim is to suggest a philosophy of politics based upon the belief that impulse has more effect than conscious purpose in moulding lives..."

*At rarer moments we are also conscious of different directions in which we can proceed. These are the instances of rational choice: either intrinsic or instrumental*

At other moments of rational choice we are more fully conscious of our will. Here we are typically conscious not only of the contents of the will - faculty, cause and/or end - but also of the different directions in which to go. It is usually through a process of instrumental rationality that a specific direction is then decided upon. These moments of rational choice should be clearly distinguished from moments of ordering interests through non-instrumental or 'intrinsic' rationality.

Through intrinsic rationality *cause and end coincide* on the basis of values or in the case of intuition, inspiration or enthusiasm, whereas through instrumental rationality cause and end remain separate. Intrinsic ordering can later be followed by rational refinement, e.g. imagination followed by engineering, resulting in imagineering. In the case of intrinsic will, cause, end and means are *not separated* as neatly as is the case with instrumental rationality where such hierarchy does apply. In the next chapter we will elaborate on such different kinds of rationality.

The essence of rational choice is that we dispose of some knowledge and information, however incomplete those may be, which enable us to be conscious and to perceive of at least two if not more alternative scenarios. One scenario arises as the result of choosing to undertake, the other of choosing not to undertake a certain act. If the consequences of either action are of the same level and *of the same nature* and dimension, then the choice could become a rational one in the utilitarian sense of the word: we could then start maximizing the positive consequences or utility.

*The quest for the best combination of interests.....*

*.....with other households can be achieved through market exchange*

The quest for actually choosing the *best* combinations of means to achieve the end may then start. This is the essence of rational will and rational choice, and of rational action too, if performed as planned. Although the individual (household) might possess all the required means, the *most appropriate* means could be available through *other* households. In this case, appropriate avenues for structuring interests can be entered into: the *market place* or clan exchange. It could be more effective



to acquire interests from other households through exchange than for the household itself to procure these.

This would consequently imply efforts to acquire such external means, including the calculation of costs and benefits, the gathering of information and the organization and execution of the exchange. We refer to these efforts as transaction efforts, and leave the economic thinking (logistic economics) on how to organise the best exchange to the vast amount of literature written on this subject.

What is needed for our purpose is a *comparison* of the different *modi operandi* of an individual in structuring and prioritizing his interests: whether with or without *external* means, with or without *exchange*. Also needed are assessments of how the market, with its *modus operandi* which differs from the individual's, *could affect* the latter's *modus operandi*, as well as what the strengths and weaknesses of alternative manners of organizing interests are.

What is fundamental here is that the decision of market exchange and cooperation among households necessarily results in a change of the individual *modus operandi* for ordering interests. The will can *no longer avail of the broad spectre of constituents* as explained above in the case of the individual: in a community, the will tends to be rational and instrumental rather than intrinsic. This is because both a group decision in a political system and an exchange in a market system first requires objectivity both communication-wise and interest-wise. Such requirement has major implications for intrinsic interests and imponderabilia: they do not have much chance to be defended by the test of objectivity and group utility applied by market and political systems. Therefore it is necessary to reflect on the implications upon *imponderabilia and intrinsic interests*. *These have to change at the level of the individual household if the latter opts for a formal market exchange.*

Three major observations should be made when we analyze how the *modus operandi* of a household is affected through exchange with other households on a market.

*Exchange implies a change in the individual's modus operandi because of the premisses which underlie the market device....*

*3 observations on the market exchange process:*

1.Objective  
communication...

First the option of acquiring means from another household results in the need for an objective common denominator which communicates the eventual features of such means.

This holds especially if and when a personalized exchange is no longer feasible. Such *non-personalistic* market exists where the size of the market is or must be large e.g. in case of products whose essential added value stems partly from economies-of-scale, which is more often than not the case. These are then to be communicated objectively.

.....which requires  
the functioning  
of the individual  
household to  
change to a less  
complex form.....

.....to be  
consistent with  
the homogeneity  
of the market

Hence, the  
actualization of  
interests outside  
the market and  
state mechanisms  
is justified  
whenever  
intrinsic motives,  
such as values,  
are at stake

2. Tangibility to  
property rights  
for monetary  
expression.....

For objective communication to be effective in a non-personalized market of overflowing information, which is the reality of our present day societies, the interests are to be presented in such uniform a format that it can easily be grasped by the majority of potential stakeholders. Only if communicatively strong can the interests be realized. This holds both for the democratic-political system and the market mechanism. Hence, intrinsic interests are conditioned by a mono-utility criterion such as the price of a good, or an easily comprehensible, non-complex political message. The conclusion of this observation is that the functioning of the individual *must change* to a less complex form and must be consistent with the homogeneity of the market and the political system *if it is to be successful*. But a second conclusion which emerges from the first is that the realization of interests (actualization) is *justified outside* the formal market and state system *if* compliance with the mono-utility criterion is *too great a detriment* to the intrinsic interests (e.g. values) at stake. In this case we talk about the 'civic' or non-market, non-state economy. This subject will be dealt with in chapter 11.

A *second* observation is that money as the communicating fluid of the market requires that the interests of the individual (household) have features which are adequate and receptive to monetarization.

The main requirement is therefore that interests should be tangible. Not merely tangible in the physical sense, but *tangible to property rights*. This implies that they should

have a delineated nature or domain: that they should be of a *distinct* nature. Such *particularity* of interests is required for *conveyability* from one household to the other to be applied. We have seen above that objective communication is usually achieved through the common denominator of utility and is expressed in monetary terms.

The monetary expression of the value of a thing does not require the thing itself to be of a tangible or quantifiable nature, but it does require that exchange and hence *distinct property rights be applied*. With clean air and other by-products or benefits, so called externalities, this is not the case. Hence they cannot be traded and assume the nature of imponderabilia whenever the non-personalistic market allocates the interests of a community. This observation leads to the conclusion that the functioning of a household at a market place (according to the standard laws of economics) *reduces its disposition towards interests which are intangible with respect to property rights*. Therefrom stems the emergence of externalities, which is the subject of chapters 8, 9, 11, too.

*....reduces the household's propensity towards intangible interests*

A *third* observation is that intrinsic interests and/or non-ponderabilia that *do not possess a market value per se* because inappropriate to the over-arching utility criterion of the market, are *repressed at a time when a non-personalized market is all pervasive*. In order to prevent such interests to be organized improperly, be it inappropriately or imperfectly, or even such interests not to be realized at all, the following strategies are open:

3. No exchange value for intrinsic interests and non-ponderabilia can be determined

1. *Change and/or compromise the nature of such interests itself* such as to make them conform with the mono-utility criterion of the market and/or for property rights to be applied.

2. *Adapt the conveyability requirements inherent to the market's modus operandi* to the requirements of core added values. This refinement should be such that communication for rational ordering and exchange no longer depends solely on the objective common denominator 'money', i.e price and volume variables. In other words, effect a *transition from a non-personalistic*

to a personalistic market. Ordering interests outside the classic market exchange is the first option. Converting market exchange into a personalistic exchange could be an alternative solution as this would substitute the will, a *multi-dimensional mechanism* for the overarching criterion, utility. The will and personalistic exchange can take into account the multifaceted nature of intrinsic interests and/or of collections of interests of a different nature, and it can deal with multi-rationality. *Personalistic exchange outperforms a non-personalistic market in this respect.*

At this point, to dispel fears that we may be prejudiced against the market mechanism, we must make clear that this book is rooted in the belief that the market is the primary interests' ordering device. It is because we believe in the market that we also focus on its deficiencies. Indeed, the *best functioning of the market* can only occur if its failures are understood. However, in the specific case of mixed interests, we will conclude that alternative ordering devices are also required.

*On conclusion,  
the scope of  
rationality used  
in economics has  
to be broadened  
for a balanced  
allocation of both  
instrumental and  
intrinsic interests*  
15

Although it would be highly attractive to next undertake an evaluation of the above strategies in those cases when a market is inappropriate for organizing imponderabilia, we will *await* until chapter 9. Now we conclude that for our purpose of adequately structuring interests of both an instrumental and intrinsic nature, a closer look and careful evaluation of the *rationality* applied in the *modus operandi* of an individual (household) as compared to the community and/or the market is needed. This is our task in chapter 4. Such analyses have not been sufficiently undertaken in the last decades of economic research. The so-called 'logistics' economics mainly engineered optimization problems *within* the given scope of instrumental rationality. Instead, we propose to step *beyond* the borders of the narrowly defined rationality of mainstream economics.

---

15 The instrumental interests of economists resemble the "external goods" of philosophers whereas intrinsic interests resemble "internal goods".

Once the limits of rationality have been stretched, the individual household's will or the political will of the community can then choose the most *appropriate* rationality and select the vehicle, be it market, state, or 'civic', which is *adequate to the modus operandi required by the core added values* of the interests at stake. In the end this depends on the *nature* of the interests to be ordered, their *context*, and available ordering *faculty*, as we will conclude in chapter 7.



---

## **Part II**

### **On rationality**

---



#### 4. A CLOSER LOOK AT RATIONALITY IN ORDERING INTERESTS.

Rationality has been a *floating* concept in the history of describing human behaviour. Some 60 different definitions have been inventoried. It is commonly understood that the concept relates to human acts, although it has sometimes been extended to the realm of nature, too. A common rationality is therefore presupposed in man and nature and such transcendence allowed for the interconnection of the two because from it followed one common kind of rationality <sup>16</sup>.

*The rationality found in nature can be applied to man*

*Key characteristics* <sup>17</sup> have been added to the concept of rationality in the course of human thought including the following:

*Rational method is characterized by the coexistence of 5 characteristics*

METHOD
<ul style="list-style-type: none"><li>• transcendency (universality)</li><li>• stable order</li><li>• memory</li><li>• combining ability</li><li>• rules of inference (inferential system)</li></ul>

fig. 1 Key characteristics of rational method

Together they are typical of rationality in human behaviour. From a *simultaneous* application of *these 5 characteristics* emerged what is known as '*rational method*' <sup>18</sup>: an orderly arrangement of actions and/or ideas. An explanation of the mechanics employed by the rational method will now follow.

Within a stable order, a specific set of inference rules enabled the combination of elements to serve the aim chosen by the relevant decision maker. Historically, the use of memory in man's evolution enabled such

<sup>16</sup> The analogy between the realm of physics (nature) and man has been cultivated over the last two decades; see 'THE DANCING WU-LI MASTERS', UCLA, California, USA.

<sup>17</sup> See L. Sfez, CRITIQUE DE LA DECISION, PUF, 1981.

<sup>18</sup> Descartes, DISCOURSES, 1637

combinations of interests to be achieved with ever increasing effectiveness through the learning effect: the feedback from *past experience induced to the present day decision-making to shape future events.*

*The mechanistic method is characterized by linear means-end hierarchy.....*

A set of inference rules frequently practised over the last centuries is the mechanistic set that enables man-made combinations of natural resources that served the purpose of protection - a cave or a shelter - or the purpose of discovery - man's visit to the moon - or any other aim. A common trait of the mechanistic method is the *means-end hierarchy* in its rules of inference. Such hierarchy can be highly effective in organizing driving forces of both individuals and communities. This especially holds if and when many actions or elements of the same order need to be structured. Mechanistic cause-effect chains allow for overview, certainty, and control in situations where various actions, elements or influences need ordering: highly valued *psychologic benefits* for the individual who would otherwise be left in the *uncertainty that goes with variety*. As long as the intrinsic nature of the actions or driving forces themselves is not jeopardized, such method of hierarchical ordering can be highly effective. Indeed, the *modus operandi* of structuring the interests of community households is often characterized by hierarchical ordering.

*.....but hierarchic ordering is sometimes inappropriate*

If however either a stable order, such as the *set of stable preferences* in economic behaviour, or the same set of rules of inference no longer apply (*different faculties use different rules of inference, e.g. intuition vis-a-vis ratio*), then *hierarchic ordering might wrongly affect the very nature of actions and/or underlying interests*. Thereby hierarchic ordering will lose its effectiveness. Hierarchy could even influence the nature of intrinsic interests themselves. In this case other devices for practising appropriate rules of inference should be searched for.

*Enter a paradigm shift: from stable order to chaos.....*

In stronger language: hierarchic structuring itself would *no longer be possible* at all if order is not stable but continuously changing. This occurs when the context of a specific activity is characterized by change. In nature, and especially physics, the assumed stable order turned

out to be rather relative in the course of 20th century physics' thinking with various concepts of non-hierarchy emerging as the resulting paradigms: dynamism, entropy or chaos. A similar observation is now increasingly being made in the case of economics. However, the assumption of stable order is not a problem when the resulting set of laws still remains sufficient to explain an empirical finding. But it does become a problem when *assumed laws* and *empirical findings* do not match.

This problem can be solved either by challenging and altering assumed laws, and hence the conclusions they lead to, in order to match the traditional perception of facts; *or* by adapting the basic perception of facts according to new paradigms through the application of a set of new laws or rules of inference altogether. Choosing the latter, a new paradigm which orientates our prime perception of economic reality could replace the stability of known preferences: the *chaos of interests to be structured towards coherent superpositions*.

Incidental non-chaos would therefore be the result of good ordering; and the quest for utilization value is then the quest for coherent interests superpositions, as shown in figure 6 of chapter 11). Such juxtapositions are then to be considered as moments of incidental non-chaos. This would be legitimate, practically effective and/or scientifically valid, if and when the resulting rules of inference would lead to conclusions that better fit reality<sup>19</sup>, as shown by figure 2.

We choose this latter avenue and adopt a change in perception: what so far has been considered as *stable order* will from now on be perceived as *a moment of non-chaos* in a context of chaos. Pending its duration or continuity, an order could be considered either an element of stable order or a momentum of non-chaos. Order can hence be perceived as relative non-chaos. *Changing the stance* brings other inference rules in perspective. Whereas mechanistic thinking in the case of stable order leads to hierarchy, stochastic thinking in the case of chaos results

.....which  
requires the  
perception of  
stable order as  
incidental non-  
chaos

Mechanistic  
ordering should  
also be replaced  
by stochastic  
ordering

---

<sup>19</sup> E. Kant's division of 'Percept' and 'Concept' is being practiced here.

in existential open-mindedness as a prime asset of a decision-maker besides cause-effect thinking which becomes secondary <sup>20</sup>.

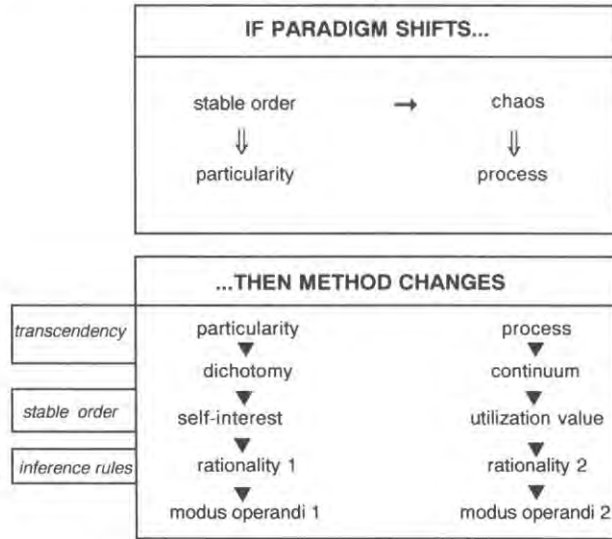


fig. 2 If paradigm shifts, then method changes

An important implication is that actions, elements or influences can therefore be ordered in different ways: at least stochastically or mechanistically if not in more ways. Whereas the latter applies hierarchy of means to ends in ordering, the former does not and focuses instead on the stakeholders' analysis. Both mechanistic and stochastic thinking, each with its distinct set of rules of inference (the sets partly overlap) could explain or answer problems effectively, depending on which type of thinking is more appropriate.

The difference in ordering interests results from the different set of inferences rules being used. The appropriateness of one type over the other depends on the stance one takes. The stance of the agent and his *perception* of facts will change when his *aim* changes

*The set of inference rules are determined by the agent's aim and faculty; stance and perception of facts follow accordingly*

<sup>20</sup> Kloppenborg P.H.L., 'CONCREET VORMGEVEN AAN PPPS', FNV-Lecture, 26 March 1987.

and/or the inference rules in conceiving change when using a different *faculty*. The stance and faculty are ultimately determined by the will and at will.

In analogy, we can say that the perception of economic facts differs - and hence the most appropriate set of inference rules or guidelines of rational economic behaviour - whenever the objective of the economic agent and/or his inference rules change in conceiving facts.

From the relativity of facts pending the agent's stance follows the fundamental relativity of economic inference rules. The prime question is behavioural: what goals are being aimed at? Only a stakeholders' analysis, as shown in chapter 2 and figure 5 of chapter 11, can answer this question. From the identified objectives follows the quest for the appropriateness of certain laws or inference rules, pending on the stance taken. This is a most crucial conclusion and a premiss of prime importance for our study: *different kinds of rationality co-exist* and rationality is relative with the possibility that one kind of rationality be more appropriate than another, pending on the ultimate objectives and the stance taken by the agent. The relative appropriateness of rationality is a well known philosophical phenomenon that we apply to the realm of economics.

From this conclusion follows a second: in pursuing self-interest the individual might use a different set of inference rules than if pursuing utilization value or general interest. We will elaborate on this conclusion in chapter 7. The guidelines for effective economic behaviour will differ accordingly and either behaviour might be more appropriate for certain problems than others. The choice of which behaviour to adopt depends on the perception of reality as chaos or hierarchical stable order (or any other) and the appropriateness of *one similar* set of inference rules over *different* actions - here comes in the notion of 'commensurability' - as is currently presupposed in classic rational behaviour. For the time being we conclude that although widely held, the assumption of one set of inference rules and one

*Rationality is therefore ultimately relative:.....*

*.....different kinds of rationality can co-exist.....*

*.....and some suit specific problems more appropriately than others*

overarching rationality for all kinds of economic behaviour is *invalid* and only relatively appropriate.

Evidently it is also interesting to investigate *when* the *homogeneity* of the market, as a device which originates from the mainstream economics' assumption of the commensurability of interests, is inadequate. We will do so in chapter 8 and now focus on the mainstream economics' concept of rationality and the key characteristics of its method.

Mainstream economics applies only one rationality of behaviour.....

Classic rational behaviour is defined as envisaging the best means for achieving a goal *itself* through the use of the faculty of *intelligence*. More specifically:

*"Un homme est réputé rationnel lorsqu'il poursuit des fins cohérentes avec elles-mêmes, et qu'il emploie des moyens appropriés aux fins poursuivies"* <sup>21</sup>.

.....which, from a utilitarian perspective has been refined to 'the realization of a goal with minimum effort and maximum satisfaction'.....

From a utilitarian perspective, rational economic behaviour has been refined as the achievement of a goal with *minimum efforts and maximum satisfaction*, an action which requires a kind of input-output calculus. Such calculation presupposes commensurability at both sides of the calculus, input as well as output, and/or among alternative calculi. This means a common denominator and/or a common set of preferences so that one similar set of inference rules will indeed be applicable. Through the application of this one kind of rationality, consistency of choice in rational behaviour results.

.....and further refined to self-interest maximization

In a further refinement of the utilitarian approach, *utility* was not only commensurable and employing one set of inference rules over all human actions <sup>22</sup>, but also *equated with self-interest*. Self-interest, whose maximization would simultaneously and miraculously maximize the general interest as well, became the driving force of human action. This 'magnificent' result could be

<sup>21</sup> Allais M., Le comportement de l'homme rationel, *ECONOMETRICA*, 27 October 1953.

<sup>22</sup> Compare the notion of 'Commensurable utility' and 'one set of inference rules' with the notion of 'normalité' in L. Sfez, *CRITIQUE DE LA DECISION*, PUF 1981, pages 158, 159.

achieved on condition that *all* agents *consistently* act on the basis of self-interest maximization as prime motor. Bentham formulated this as the "Greatest Happiness Principle" or the "Principle of Utility": "...An action is conformable to the principle of utility when the tendency it has to augment the happiness of the community is greater than any it has to diminish it..."

Utility is taken to correspond with desire or want which according to Marshall can only be measured *indirectly* through the *outward* phenomena to which they give rise<sup>23</sup>. Nowadays the moment of monetary exchange is considered the relevant outward phenomenon. The stable preference for self-interest maximizing behaviour leads to the calculation of a combination with more utility than without that combination, implying a rather defined set of inference rules.

A maximizing behaviour in one *consistent* direction, self-interest, in addition to one *commensurable denominator* of utility, money, enabled economic modelling. This utilitarian refinement was crucial for mainstream economics because the addition of self-interest provided that one driving force and one direction of behaviour applicable to any element of an economic system<sup>24</sup>. All the main characteristics of method were now provided for; they laid the foundations for the method of economics as a science proper, as detailed below.

*With this refinement mainstream economics was complete as a method*

---

<sup>23</sup> Marshall A., PRINCIPLES OF ECONOMICS, Macmillan, 1890.

<sup>24</sup> Utility and especially one *commensurable utility* (one common denominator) provides for *transcendancy* over all elements of a system.

- Human behaviour by nature provides for *memory* or *learning experience*.

- *Maximizing* behaviour provides for *one consistent direction* to the combination of elements be they in or outside the household (exchange).

- *Commensurability* combined with *maximization calculus* provides for *binary rules of inference*

- *Self-interest* as the sole criterion of utility provides for *stable order* as it is the all-pervasive goal of all household and with which any behaviour, action or combinations of means can be purported to be compatible.



METHOD OF MAINSTREAM ECONOMICS	
transcendancy:	commensurable utility
stable order:	self-interest orientation
memory:	learning experience
combining ability:	maximization as the one consistent direction
inference rules:	instrumental maximization calculus

fig. 3 Characteristics of mainstream economics' method

Abstaining from any ethical judgments, the method of mainstream economics is hence impressively complete *as a method*. The stable preferences of self-interest maximizing behaviour allows for a highly powerful rationality in ordering interests among households. Behavioural prescriptions logically follow from this method as long as the above basic premisses are consistent with *reality*.

*If the economic agent aims not at self-interest but at utilization value, then a change in his modus operandi is required*

However powerful it may be, ordering driving forces and the set of inference rules for doing so will essentially differ from the above *modus operandi* if self-interest is *not* the prime objective of the economic agent but utilization value is. This axiom would imply that individuals and/or households are primarily interested in combining available driving forces so as to optimize the common result by assigning a secondary priority to the distribution to the self and/or the possession of interests by the self. Whereas with self-interest the *expected output to the self* directs the ordering of the driving forces (the input), it is the *appropriateness* of combining interests, also in time and place, which determines the input of the appropriate individual(s) in the case of utilization-value. This motivation stems from the insight of agents that the common result in the creation of which they *participate* is of a higher quality than the individually *possessed* outcome based on self-interest maximization. The primacy of orchestrating potential interest combinations of added value is the main trait of economic action towards utilization value: here economic agents will testify of communality more



than exclusivity of the self. If this description fits the reality of economic agents, then different rules of inference would apply: a different kind of rationality.

In the latter case economic rationality is highly *localized* 25. Appropriate rationality depends on context, objective and faculty as we will see in chapter 7. A constellation of interests (objective, faculty) at a specific point in time and place determines which set of inference rules is used. Rationality is allowed to *change*, whereas in the case of mainstream economics the ordering is self-contained insofar as rules of inference *remain stable* because of the assumed single direction of ordering. When changed circumstances require rules of inference which are contradictory to the rules of self-interest, no such behaviour would follow had utilization value been the prime objective. Examples of such economic behaviour guided by classic non-localized and stable rationality are the 'free-riders' effect and the prisoner's dilemma 26 in case of externalities. Here game-theory would lead to self contained behaviour only.

Significantly different are inference rules when economic behaviour is oriented towards utilization value. Its rationality can adequately be described with the words of Maurice Godelier 27:

*"Rationalité qui impliquerait non plus que le rationnel soit la construction consciente d'un profit, mais la zone*

*With utilization value rationality is localized*

*Utilization value defines rationality of behaviour differently from mainstream economics*

---

25 Bachelard G., LE NOUVEL ESPRIT SCIENTIFIQUE, PUF, Paris 1934. Bachelard has explained in detail what "localized" means in the case of rationality.

26 Buchanan A., ETHICS, EFFICIENCY AND THE MARKET, Oxford, 1985.

27 Godelier M., 'RATIONALITÉ ET IRRATIONALITÉ ÉCONOMIE', Maspero 1969, page 207.

Rationalité: profit = classic rationality

Zone d' intérêt = interest web

Situation donné = context

Possibilités = potentiality

Individuelle en rapport avec la société = communality, i.e. common result

'Activité sociale' is inherent to 'inter-est' as the prime object of study in economics

*d'interet ou conscient et inconscient totalisent, dans une situation donnée, les possibilités d'action individuelle en rapport avec la société, resultats intentionnels d'une activité sociale".*

Rational economic behaviour differs here in that it does *not* order driving forces so as to *accumulate* the output *possessed* by the *individual* but as to blend driving forces, be they external or intrinsic (interiorized objectives), with those of the context of action, in order to achieve an optimal common result of added value which he can experience and have access to.

*Different modi operandi are characterized by different rules of inference*

The main distinction between the two rationalities lies in their *modi operandi*, the different set of inference rules they use on the basis of the different perceptions of a stable order and/or hierarchy. If externalities are considered as part of a stable order then the engineering logistic economics is used. When order is considered as *momentary non-chaos*, then a new, alternative ordering of interests will be considered a potential solution. As we focus in this study on the ordering of driving forces we should carefully assess when the hierarchic *modus operandi* is more appropriate and when others, e.g. stochastic *modus operandi*, are instead. It is in the method of ordering and functioning of the agent's thinking process that the rational economic behaviour can differ considerably. We will later see that the good choice of faculty and *modus operandi* very much hinges on the nature of the interests to be ordered (: context) and especially the prime motor or driving forces of the agent. Let us first start with the different rules of inference in the next chapter.





## 5. RULES OF INFERENCE IN ORDER AND CHAOS: PARTICULARITY AND PROCESS

This chapter focuses on inference rules. Because the subject matter may be technical for some readers a summary has been added at the end.

We start with the conclusion reached previously that different forms of rationality exist (as shown in figure 2, chapter 4) according to the stance one takes, whether self-interest or utilization value (as shown in figure 2, chapter 1). To a large extent the stance is determined by the *objectives* or direction of the agent's will, as well as his *perception* of reality or paradigms, such as economy as stable order or economy as incidental non-chaos.

What do we mean when we say that rationality in economic behaviour can vary ? In what aspects (or properties) can ordering interests differ ? And in what aspects it cannot vary or, in other words, what is the minimum content of rationality ?

As a faculty at the disposal of the will, human ratio or reason has its own limitations. Typically it cannot produce or generate the final causes or ends of an action. According to Russell<sup>28</sup>: "*Instinct, intuition or insight are at the origin of our thoughts, opinions which then can be tested, accepted or rejected by reason*".

*The will  
determines how  
reason deducts*

However, reason or human ratio<sup>29</sup> can deduct conclusions from a *given* set of assumptions - related to axioms and paradigms - which inform man what to do. For such deduction certain rules of inference are key. A rule of inference typically indicates how basic elements are allowed to be combined, and more specifically how conclusions can be formed (deducted) from premisses.

---

<sup>28</sup> Russel B., MYSTICISM AND LOGIC, 1953, P. 19.

<sup>29</sup> Reason and ratio: their distinction is best expressed by the Latin counterparts 'intelligens' and 'ratio'. 'Intelligens' means 'to read into' whereas 'ratio' means 'to deduct'. Intelligence is here closer to "mens" than "ratio".

Deduction  
requires a  
minimum set of  
inference rules,  
of which.....

Hence 'a' set of inference rules is the minimum base required for deduction to be applied. Which inference rules are part of the minimum set will depend on our acceptance or rejection of the 'correspondence' and/or 'appropriateness' of means to end, of choice to objectives. If we accept this correspondence then the *objective co-determines* the inference rules. If we reject it, we are left with the question of whether a minimum set of inference rules still exists. In case of rejection, the one and only effect on inference rules can be excepted from the medium itself which may cause and physically allow for rationality. That medium is 'brains': the human faculty which allows for thinking processes.

.....the very  
minimum is the  
Law of Non-  
Contradiction

To avoid diverting into a temporary bio-scientific perception<sup>30</sup> of the working of the brains, we will *induce* (a generally accepted premiss) from the history of human thought that the ratio can only think *without contradiction in respect to the same object*: i.e. without contradiction in observing the same properties of an object of thought. As a minimum inference rule inherent to the functioning of human thought and hence rationality itself, the *Law of Non Contradiction* is required: C is an element of either A or non-A.

Mainstream  
economics deals  
with self-interest  
by twinning the  
laws of Non-  
Contradiction  
with Double  
Negation.....

In economics this implies that it is impossible for an interest to be present *and* not to be present *when the same properties are perceived* - the latter addition being necessary to exclude paradoxes. An interest can be directed by *both* a self-interest stance *and* an altruistic stance. Alternatively, a driving force can stem from a self-interest stance but simultaneously it could negate the altruistic stance: it could *exclude* the *non self-interest* stance. In other words, self-interest can be reinforced by *explicitly excluding* non self-interest. Here a double negation has been added to non-contradiction: it is either self-interest or non self-interest, and if not in the non self-interest then necessarily in the self-interest, and vice versa. Hence a *dichotomic* orientation of economic action results.

---

<sup>30</sup> Neurophysics; neuropsychology; cybernetics.

We will see in chapter 8 that Sen has proved that mainstream market economics does indeed cultivate the exclusion of the intermediate interest sphere between self-interest and non self-interest. In the 'civic' economy however, such exclusivity which is achieved by coupling non-contradiction with the double negation, is rejected. Therefore we conclude on non-contradiction as a minimum for rationality. The impossibility of rational economic behaviour to both accept and not-accept a certain interest from an exactly similar stance is induced as the minimum inference rule for any kind or nature of rationality whatsoever.

The minimum nature of rationality paves the common grounds from which various kinds of rationality can be formed depending on which inference rules are added to this bare minimum. It is important however to observe that any addition above this minimum is arbitrary and involves a *normative* choice. The evident argument for adding new inference rules is that it should further the goal of what we are aiming at: it implies that there must be *correspondence* of means to end.

Additions to the minimum include the most frequently applied inferential rule of the *law of Excluded Middle*.

The law of Excluded Middle effectively affirms that for a phenomenon, either it or its negation is valid, which is fairly evidently a logical truth. This is related to the other affirmation that every proposition is either true or false, and from this law it receives its own name: a third or middle value between truth and falsity is excluded for all propositions.

If we now return to the two above statements on self-interest and non self-interest then we can accept the paradox of both being simultaneously valid on condition that we reject the law of Excluded Middle. Then both self-interest and non self-interest can and do occur. In real-life economy this is more often than not the case.

Alternatively, if we choose to accept the law of Excluded Middle then we ought to reject the paradox of acting both

*.....this is rejected  
with utilization  
value*

*Any choice of  
inference rules in  
addition to the  
minimum base is  
arbitrary and  
normative.....*

*.....and should be  
based on the Law  
of  
Correspondence*

*The Law of  
Excluded Middle*

*Mainstream  
economics  
accepts the law of  
Excluded Middle,  
'civic' economics  
rejects it*

agent change ? How does rationality function then ? Which inference rules apply with this new stance (see figure 2, chapter 4) ? To find out, we will now compare the mainstream economics' rational method of stable order of the previous chapter with the rationality of economics as ordering chaos. We will see below that the Law of Distributivity is particularly relevant since positioning is important with utilization value. Furthermore, the Law of Excluded Middle is appropriate to the very nature of mixed interests. We will also see that some key capacities are linked to this change in inference rules.

In the theory which views economy as the manifestation of an ordering process towards non-chaos, the *basic unit* is not the self-interest maximizing individual, but the process of *becoming non-chaos* itself. Or better defined: the process itself of ordering interests. This is without identifying the *direction* of distribution following a momentum of creation towards the self or not-self, as is the case with the method of mainstream economics. The different directions in which we may order amongst various interests will each produce a different common result: through different ways of processing order amongst diverse interests, a different common result is produced. The process-dependency of a product is especially experienced when *diverse* interests do apply. A good example which testifies of this process-dependency are the real life cases of mixing differently natured interests among private and public sector organisations<sup>33</sup>.

.....and the  
direction of this  
process can be  
utilization value

In the case of utilization value being the prime mover in ordering diverse interests, the interdependence of intrinsic interests and contextual added values which

---

combination of monetarized and non-monetarized elements', as compared to our definition (see page 11) of 'best use of available interests (possessed and non-possessed) in order to optimize the common result of values added in a specifically chosen environment.

<sup>33</sup> See Lambooy & De Jong, *Intermediair*, 1988; see Kloppenborg, 'Public-Private-Partnerships', chapter 1.7, Amsterdam 1987.



optimizes the common result is so intricate that the *interests' ordering process* itself alters the environment. Context and process reciprocally mould each other in the quest for the good order among interests. This requires the ordering processes themselves to be different from stable-order context-processes. Typically such mutually moulding effects require cyclical processes of networking (based on a 'joint idea development', as shown in figure 12, chapter 11) instead of the classic linear process of first conceiving, then developing a concrete product of project before actually selling it. The linear input-output models of a system (viz. a black box), particularly delineated in its environment, no longer hold. This new stance is adopted because of the propensity of the environment to change as a result of the ordering process.

Networking is an all but too renown phenomenon in such processes and it involves the linking of certain events (or processes) with other, allowing the transition of interests and the formation of interests' webs. The webs in turn join to form larger webs. When input into networks, *interests* undergo a *transition*. This is because the propinquity to *other* interests is in each configuration different which profoundly influences the nature of interests themselves, as shown in chapter 1. Changing from one place or state (: positioning) or from one set of preferences to another, interests become part of different webs each having its own appropriate, localized rationality. The localized and contingent rationality of utilization value as defined in chapter 4 indeed underlines the importance of accommodating the idiosyncrasies of the contexts of different interests webs in creating the optimal common result: ".....la zone d' intérêt dans une situation donnée où conscient et inconscient totalisent les possibilités d' action..." (see note 27). To such 'accommodation' refers the term transition ability. It could be understood as that flexibility of interests which enables a potential superposition or the common result, as identified through a stakeholders' analysis, to be achieved.

*The interdependence of context and interests requires cyclical networking, not classic linearity*

*Interests undergo a transition through participants' positioning in networks*

*Personalistic  
experience allows  
for different  
inference rules in  
ordering chaos*

The transition ability of a household depends on its *openness* for different sets of rationality. The latter difference stems from different *rules of inference*. Whereas in one configuration the will might use a rather instrumental rationality in ordering interests, it may simultaneously choose to apply a totally different kind of rationality in ordering. This would lead to another configuration. We would here observe hierarchic ordering (: binary) with the first instrumental kind, compared with non-hierarchic ordering with the second kind of rationality. Whereas the first kind would imply a classic logic accepting the law of Excluded Middle, the second could involve intuitionist logic <sup>34</sup> accepting more than just the 2 alternatives A or -A (3 or more): it rejects the law of Excluded Middle. A different, say stochastic ordering could be applied by the use of quantum logic's rules of inference. Adaptability to multi-rationality in ordering interests therefore also determines the ability of a household to successfully combine core added values in a valuable common result.

*Through a  
different  
superposition of  
interests the  
common result  
changes*

An implication of the reciprocal moulding of context and process emerges clearly: the *common result* changes each time interests are *differently super-imposed in different webs of interests' constellations* (see figure 1, Finkelstein's experiment). Sometimes interest constellations are combined in such a way that a coherent superposition flows from it, as for example, the so-called 'bad debt green-equity SWAPS' <sup>35</sup>. Here, the economic agents usually practicing their idiosyncratic forms of rationality, all testified of their transition ability. From it followed a coherent superposition: a thing-in-itself which is as distinct from its components as its components are from each other <sup>36</sup>. A coherent superposition denounces the Law of Distributivity, as we shall later see.

---

<sup>34</sup> Brouwer L. E. J. or Bohm D.

<sup>35</sup> In the civic economy the combination of different forces is exemplified by activities such as the 'bad-debt - green-equity swaps' between commercial banks such as NMB and not-for-profit organisations such as World Wildlife Fund.

<sup>36</sup> Quoted from G. Zukav, *THE DANCING WU-LI MASTERS*, Bantam Books, 1979, page 270.

In such process of searching coherent superpositions of interests the factual *personalistic* experience can never be replaced by the *planned* hand, nor by the *invisible* hand of the impersonalistic market. Both state and market hands function according to their form of rationality, whereas man in his personalistic experience can apply both his capacities for transition ability and adaptability to multi-rationality. The personalistic searching process is known as the 'joint idea development' and is at the heart of the quest for utilization value.

In the quest for utilization value, the edge of any individual household is therefore determined by the above 2 key capacities. First, its ability to *strategically position* itself towards *optimum propinquity* (transition ability) so as to optimize the utilization of its talents in the chosen environment *it selects*. *Second*, its ability to *travel* through different webs and *adapt its rationality* according to context and objective without losing its prime added value <sup>37</sup> that contributes to such a web or community. Inversely, the inability of certain interests to travel through different webs of rationality and position itself strategically <sup>38</sup> in a given web, and the inertia of certain self-contained environments or webs to allow for driving forces to simultaneously cultivate the strengths of their individual interest-in-itselfness, and to coherently crystallize them in a tangible common result, is considered a main source of economic ineffectiveness. This especially holds for mixed interests' configurations where complex synthesis is most needed.

Since problems of economic ineffectiveness *can* be tackled through a search for coherent superpositions we will now focus in more detail on two of the three key capacities:

- transition ability of interests
- adaptability to multi-rationality

*The search for coherent superpositions of interests \* through joint idea development \*\* is at the core of the quest for utilization value*  
\* (see fig. 6, chp.11); \*\* (see fig.12, chp. 11)

*2 of the 3 key capacities in the quest for utilization value are the transitional ability of interests and the adaptability to multi-rationality*

---

<sup>37</sup> Its own thing-in-itselfness can be compared to "etre-en-soi of philosophy.

<sup>38</sup> Strategic positioning is involved here such that the interests utilization value is optimized.

*In producing the common result propinquity of interests is important. Hence a household's positioning is important, too*

and show their relevance in the case of externalities. We will conclude on how and why rules of inference and hence rationality differ in such circumstances.

To start with we focus on transition ability since the propinquity of interests, or the 'availability' of appropriate resources at a specific time and place, is a crucial prerequisite for the networking towards coherent superpositions of interests. In the quest for utilization value this *propinquity* has *priority over* the actual possession by the self. How the process of ordering in time and especially the *positioning in time* of different interests can determine the final common result (the project) can best be explained through an economic version of the demonstration by Finkelstein <sup>39</sup>, used in quantum physics to indicate the non-applicability of the Law of Distributivity, as shown in figure 1.

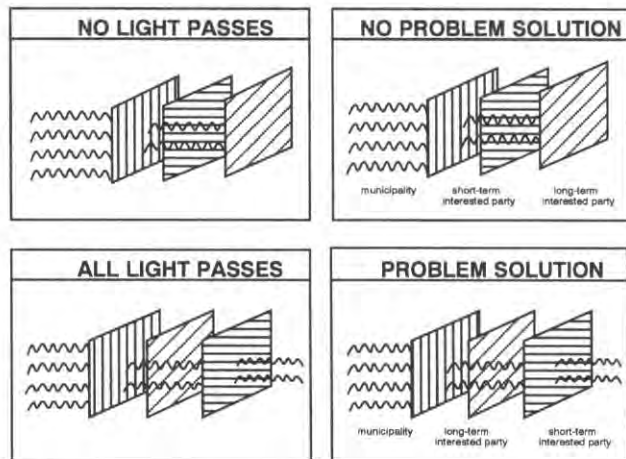


fig. 1 Finkelstein' experiment applied to economics to indicate the non-applicability of the Law of Distributivity

A strikingly similar phenomenon can be observed in the real life world of organizing public-private partnerships: the introduction of parties and their positioning of their interests in time determine to a large degree the final

<sup>39</sup> Zukav G., Op. Cit., pages. 263-268.

outcome. Case-experience shows that in public-private-partnerships the required positioning of parties is such that public versus private parties combine firstly, followed by the grouping of long-term versus short-term interests. If a short-term interested party, say a building company, positions itself towards the municipality as an ordinary supplier for a major redevelopment project, his chances of successfully creating a PPP are minimal. If however, a long-term interested party intervenes, say an institutional investor with a 25 years return span, then the "light" will fall through: a common result by the builder, investor and the municipality can successfully be achieved. The practice of such ordering processes in the case of PPPs will further be dealt with in chapter 12.

The above case-experience <sup>40</sup> and demonstration shows that the positioning of interests violates another law of classic logic: the Law of Distributivity. And it was indeed Finkelstein's objective to demonstrate with his experiment a most important finding of von Neumann and Birkhoff <sup>41</sup>: that the Law of Distributivity although *fundamental in classic logic does not hold* in quantum logic. The distributive law reads "A, and B or C" is the same as (biconditional: vice versa conclusion is also valid) "A and B, or A and C"; and "A, or B and C" is the same as "A or B, and A or C":

$$\begin{aligned} A \vee (B \wedge C) &= (A \vee B) \wedge (A \vee C) \\ A \wedge (B \vee C) &= (A \wedge B) \vee (A \wedge C) \end{aligned}$$

Applied to economy with mixed public and private interests, we have the following outcome: for example, the combination of a municipality (=A) and a short-term interested party (=B) or a long-term interested party (=C) is not equivalent to the combination of a municipality (=A) and a short-term interested party (=B), or a municipality and a long-term interested party (=C).

*In positioning  
 interests the Law  
 of Distributivity  
 is rejected*

<sup>40</sup> For additional cases, see Scientific American, February 1990.

<sup>41</sup> Birkhoff G. & Von Neumann J., 'The Logic of Quantum Mechanics', ANNALS MATHEMATICS, Vol. 37, 1936.  
 Von Neumann J., THE MATHEMATICAL FOUNDATION OF QUANTUM MECHANICS, 1932.

The appropriate positioning of interests is important in tackling externalities and, especially, the free-rider problem

The positioning relative to each party and at a specific point in time is encountered in mainstream economics in the attempts to overcome externalities: the *free rider's* and the *assurance* problems respectively testify of the importance of positioning. The *equality of one distribution* to the other is in the free rider's problem *rejected* as it is the presumed contribution of others, and hence the *subset* in which the individual participates, which will determine whether or not to take a free ride: not to make a contribution at all to a public undertaking because others do already pay for it. The mainstream economics' approach to solving externalities remained within its frame of logic: it essentially did not take into account the proper effect of strategic positioning. It concentrated instead on the 'economic engineering method' of Pigou as mentioned in the Introduction, which allows the ascendancy of one party over the other.

In order to solve externalities the law of Excluded Middle is also to be rejected

In addition to rejecting the law of distributivity it is the case that here the law of Excluded Middle, implied by competition as "*either I or the other*", should be rejected if we aim at solving externalities. This is because competition would otherwise *ensure* the free-rider problem to be the dominant barrier hampering collective action, as Buchanan has proved<sup>42</sup>.

The Pareto Optimum cannot often be computed.....

However, the above *rejection* of classic inference rules makes it *impossible* to compute the appropriate amount of taxes and benefits that would correct the externalities and move the households to the ideal output level (Pareto optimality) as Pigou believed possible <sup>43</sup>. It is interesting to observe that a new school of thought has emerged, which exhibits an approach which is quite different from classic calculation. This is the decentralized approach to externalities advanced by Coase and endorsed by Buchanan. Here *not calculation but negotiation* is the key to organizing interests (optimal allocation of resources) if externalities occur. Calculating a 'modified' invisible hand is then replaced by

.....and therefore no calculation but negotiation

---

<sup>42</sup> Buchanan A., ETHICS, EFFICIENCY AND ECONOMICS, 1985, P. 22-23.

<sup>43</sup> Lin S.A.Y., THEORY AND MEASUREMENT OF ECONOMIC EXTERNALITIES, New York, 1976, P. 2.

personalistic bargaining which we equate to 'searching for new interests constellations'.

The coherent superposition of interests, which in the end is the aim of any such bargaining can then also be translated, in the words of Coase <sup>44</sup> *the socially optimal output that maximises the common result*: the combined profits of those households affected by externalities. He pointed out the following:

*".....the firms themselves have incentive to agree to produce the optimal outputs, kinds and quantities of commodities, and then distribute the total profit such that each firm's profit is greater than, or equal to the profit that it could earn by maximizing profit individually, without bargaining <sup>45</sup>. Thus state intervention by means of taxes and subsidies is not <sup>46</sup> always needed in order to achieve a social optimum....."*

This is based on the principle of common profit which also applies to the simple process of 2 bargaining parties indicated by Stobbe <sup>47</sup>. However, maximizing the common result or producing a coherent superposition of interests here has priority over maximizing the individual result and could thereby effectively solve the problem of externalities.

It is important to observe that Coase's private bargaining approach *replaces* Pigou's calculation. Although both try to modify the invisible market hand such that externalities as problems would no longer occur, Coase considers the *experience* of interests meeting interests more crucial than the *formal* computing exercise. Whereas Coase's approach is personalistic, Pigou's is formalistic.

*Coase's  
negotiation  
approach is a  
personalistic  
experience  
which allows for  
multi-rationality*

---

<sup>44</sup> Coase R.H., "The problem of Social Cost", THE JOURNAL OF LAW AND ECONOMICS, 3, October 1960.

<sup>45</sup> This is also the formulated objective of most public-private-partnerships, e.g. Arnhem - Rynoevers-redevelopment project.

<sup>46</sup> E.g. The Regional Authority in the Province of South Holland decided not to intervene but exercise a catalyst role through a PPP in certain mixed interests' configurations, instead.

<sup>47</sup> Stobbe, THE ROOM FOR COMMERCE, Rotterdam 1989, page 34.



*This is more  
permissive than  
Pigou's  
formalized  
calculation*

Whereas the first allows for *various* kinds of rationality to interact, the second only functions if *one specific* set of inference rules is adopted and *consistently* applied (which is in itself a normative choice). One can observe that *personalistic bargaining experience* follows a much more *permissive* set of rules than the formal logic of mainstream economics.

*Formalization  
limits the  
permissiveness  
in selecting  
inference rules.....*

From this it follows that an agent adopting the 'experience' - rule of conduct is more adaptable to different kinds of rationality than any formalized attempt could be. Through personalistic experience his adaptability to multi-rationality is enhanced, one of the 2 key assets in the search for coherent interests' superpositions. Not because a formal 'balanced complete ordering' would not be possible as Sen proposes <sup>48</sup>, but because formalizing implies selecting and adopting *one* set of rules of inference over others. Formalization functions *in grace of* and *notwithstanding* its adopted limitations of arbitrarily chosen rules of inference. The selection of one set of rules of inference accounts for both its strengths and weaknesses. It enables economic modelling and forecasting for policy-aims because of the uncertainty of choosing which rationality to adopt is eliminated, but it thereby could also hamper problem solving in real-life economy. Here variety in inference rules could lead to new combinations which are not possible according to the established logic of market and state, and hence innovative solutions such as the 'bad debt.- green equity swaps'.

Let us here *pause* for a moment and summarize our findings.

*.....whereas  
economic agents  
are in fact in a  
position to  
choose different  
inference rules,  
apart from the  
basic Law of Non-  
contradiction*

The sole basic law is the *law of non-contradiction*. In addition to this basis other rules of inference can be chosen, so that each time a different kind of rationality results. Which inference rules to select and adopt is both a normative and a functional choice. This is the case for the much practised *law of Excluded Middle* which only holds if particularity applies to the phenomenon on which inferences are made. A condition that neither in

---

<sup>48</sup> Sen., A., Op. Cit



foggy Scotland could be fulfilled, nor when the perception of reality is 'chaos' instead of 'stable order'. In chaos it is the continuum of process, the manifestation of ordering towards non-chaos itself, not particularity of self-interest, which is the essential determiner of the outcome of ordering interests. The required networking expects an individual to *adopt* and *adapt* to different kinds of rationality. Appropriate positioning is required in such ordering processes. As a result, a second classic inference rule, the law of *distributivity*, does not hold in *thinking economics 'as a process'*. The rejection of certain rules and acceptance of others was illustrated by the case of how to tackle 'externalities': a subject which is fast moving to the very core of modern economics. Coase's bargaining process was compared with Pigou's formal calculation in ordering interests, suggesting a '*personalistic experience*' rule of conduct to be more appropriate because of its permissiveness for inference rules: to solve externalities adaptability to multi-rationality is required.

Can we stretch this conclusion of personalistic permissiveness beyond the case of externalities ? Frequently the need for multi-rationality is also encountered in the search for the coherent superposition of different interests, which is the key activity in the quest for utilization value. Here we should also ask ourselves if the permissiveness offered by personalistic processes could be more appropriate than mainstream economics' strict *adherence* to one set of rules of inference, and if so, why ? When we find good reasons, it is legitimate to apply various sets of rules of inference and it will conclude the *inter alia* character of rationality.

The potential of successfully combining added value constellations into a coherent superposition of interests hinges on a fundamental insight derived from system analysis. This insight shows that the permissiveness inherent to experience is *superior* to the selectivity inherent to formalization, albeit in a *limited* number of cases, as explained below.

In the classical sense an individual household is *isolated* - particularity then holds - and state-determined - stable order holds - so that a single valued utility function can

*Hence,  
personalistic  
experience is  
superior to  
formalization if  
multi-rationality  
is required*

*Why is  
permissiveness  
superior to  
selectivity ?*

*From systems  
analysis  
selectivity is  
known to be  
superior only if a  
system is state-  
determined*

be constructed. Its utility function is then *ceteris paribus* maximized. However, this does *not* hold when the individual household is considered an *open* system as part of a *community*; i.e. what utilization value aims at.

But an "open"  
system is not  
state-  
determined.....

An open system is not state-determined: it is even impossible <sup>49</sup> to define the state-variables without taking into account their environment. Sommerhoff defined these <sup>50</sup> as:

*"those surrounding conditions which affect the organism or the result of its actions".*

Applied to our individual household (open system) we would read this as "those surrounding interests which affect the household or the result of its actions". Only if we add its relevant web of interests (environment) can the resulting whole system be treated in isolation. Or, according to Sommerhoff:

*"the conjoint system of organism plus environment may be treated as state-determined..."*

.....hence non-  
predictable.....

The non-predictability of the individual household's interest per se, due to state variables being undefinable (the very reason for a stakeholders' analysis), is crucial since it implicitly renounces *ex ante* particularity. The non-predictability specifically stems from the impossibility for the individual to predict the *killer variables*, let alone define state variables that could infer with his self-interest (and which should then be absorbed in his utility function). We conclude from this insight that should an individual consider itself *part of a community*, then *particularity* of the individual would *no longer hold*, nor therefore the inference rule of the Excluded Middle and neither the premiss of a *state - determined* (stable) order.

.....and therefore  
non-particular

---

<sup>49</sup> Stobbe, Op. Cit.

<sup>50</sup> Sommerhoff, 'The abstract characteristics of living systems' in: Emery F.E., SYSTEMS THINKING, Baltimore, 1969, page155.

This means that when utilization value <sup>51</sup> is pursued and the economic agent perceives himself as an *open* system and part of a community (necessarily so in the case of mixed interests), then neither the single valued utility function can be constructed nor the outcome of self-interest maximization *predicted*. Being an open household context is *non ceteris paribus*, which implies that classic particularity no longer holds. Therefore, we conclude that the formalized attempt of joining interests cannot outperform the effectiveness of the individual's experience vis-a-vis the community interests <sup>52</sup> since the corresponding state variables cannot be known in advance.

The set of valuable superpositions of interests is therefore not to be defined *ante rem*, nor '*ante experientiam*' of the personalistic process. Such personalistic processes of searching coherent superpositions of interests can be observed in the real-life economy. Creating platforms of various interest constellations, e.g. for public-private partnerships, is the start of the process of joint idea development: the heart of the quest for utilization value. What one can observe in practice is that *formerly formalized* '*ante rem*' policy reports - written reports, a form of symbolic communication - of either public or private party is being *replaced* by platforms, forums, city marketing groups and the like in which the (non-written) *experience* of dialogue is cultivated to formulate the general good or the direction of urban development. Such joint formulation is different from public-led government statements on the public good.

It is essential here to understand that an agent can never *conceive of all the potential linkages of interests*. Therefore the optimum coherent superposition can better crystallize in the personalistic experience of those agents which are capable of adopting *multi-rationality*.

Hence  
formalization  
cannot  
outperform the  
permissiveness  
of choosing  
inference rules -  
which is the  
hallmark of  
personalistic  
experience

A good  
superposition of  
interests  
therefore cannot  
be defined *ante  
experientiam*

---

<sup>51</sup> A coherent superposition of interests.

<sup>52</sup> The breakdown of the planned economies in 1989-90 testifies to the superiority of the individual's decision-making to the bureaucracy's planned decision-making apparatus.

Different  
inference rules  
imply a different  
logic suitable to  
new models of  
economic  
behaviour

The third key  
capacity is the  
rate of alertness,  
defined as the  
degree of  
potential  
directional  
correlations

The non-predictability of state variables of an open system also implies the impossibility of identifying a stable order. A different form of rationality adopting different rules of inference will then be more effective. Different from those applied by the classic self-interest maximizer who calculates its optimum resource allocation on the basis of *ceteris paribus*; a set of stable preferences. The replacement of stable order by processing chaos requires adoption of inference rules adequate to non-particularity. New models with a different logic (other rules of inference) could more appropriately describe economic behaviour characterized by non-particularity and by non-stable order: intuitionist logic<sup>53</sup> and even quantum logic (see Birkhoff and Von Neumann) should therefore be given due consideration, as we saw above.

The third key capacity for conceiving potential linkages of interests is the individual's rate of alertness<sup>54</sup>. In structuring his interests with those of the environment the concept by Sommerhoff<sup>55</sup> identifies the individual's ability to introduce degrees of *potential directional correlations*. With utilization value, the core added values and their combinations into a valuable common result are key, *not* the distributive aspects of the common result. The latter applies when the stance of self-interest maximization is adopted. This has been formulated in chapter 1 in the sequence of assigning priority to either "possessing" or "creating". The potential interests combinations have priority, not how much utility an individual could pile up on a certain stock of utility. One could even go as far as to apply the second Law of Diminished Marginal Returns by Gossen in the case of accumulation of possessions: *with accumulation there follows a resulting increase in the propensity to adopt utilization value*. At all levels of national households we can indeed observe the replacement of growth by

---

<sup>53</sup> For 'Many-values' logic instead of binary, two-values' logic, see Brouwer L.E.J.

<sup>54</sup> The individual's rate of alertness can be compared to the scholastic '*potentia oboedientialis*', or '*providentia*' (see Houtepen).

<sup>55</sup> See Sommerhoff, Op. cit., page 191.

Chapter 5 Rules of inference in order and chaos:  
particularity and process

sustainable growth and quality as a yardstick of economic performance: maximizing utilization value.

*Maximizing degrees of potential directional correlations by exercising the human faculties of vision and imagination is becoming more important than maximizing self-interest within one kind of commensurable rationality. Indeed it is the case that utilization value is:*

*Maximizing degrees of potential directional correlations is important*

*".. primarily concerned with the general aspect of what a system does and not how it does it..."*

Stobbe quite rightly observes that Marshall and Summerhoff meet a similar criterion which again applies to utilization value too <sup>56</sup>. In his introduction of utility Marshall writes as follows:

*"...Utility is taken to be correlative to desire or want. It has been already argued that desires cannot be measured directly, but only indirectly by the outward phenomena to which they give rise..."*

Through the introduction of new basic concepts such as the individual household's adaptability to multi-rationality and his rate of alertness, the superiority of permissiveness over formal deducted selectivity can be argued. In the quest for utilization value they fulfill an important function since adopting new rules of inference is here the key.

For our present purpose it suffices to conclude that many forms of rationality may apply depending on our perception of reality. The basic building blocks determine the appropriate set of rules of inference which we should select. These blocks vary from the particularity of utility to the process of networking in chaos. As paradigms they allow for transcendence and an overall method of thought including the direction of the driving force of a system, be it self-interest or utilization value (or any other goal). They determine the kind of rationality that we inter alia choose to apply. The inability of welfare

*The quest for quality requires multi-rationality but welfare economics operates with classic rationality alone: this causes serious problems*

<sup>56</sup> See Stobbe, Op. cit., page 97.

economics to allow for different natures of rationality has caused serious problems and from it stem many wrong decisions in public policy.

#### SUMMARY

Prior to proceeding with an investigation into two specific sets of inference rules (instrumental and intrinsic rationality) in chapter 6, we summarize this chapter. The starting point is chapter 4's conclusion that the rational method is contingent. Inference rules change whenever the agent changes his *stance*: he may adopt new *objectives* (e.g. utilization value instead of self-interest) and/or change his *perception* of context (e.g. chaos instead of stable order). In addition to the law of non-contradiction as the *bare minimum of inference rules*, the correspondence of means to end will result in the adoption of other rules of inference. The rational method of stable order in mainstream economics as described in chapter 4 was compared with economy as the quest for utilization value in ordering chaos as described in chapter 5. Mainstream economics perceives particularity and therefore adopts *the law of Excluded Middle*. The reverse holds for 'civic' economics which perceives economy as 'ordering chaos in a non-stable context'. Here *webs* or *spheres of interests* instead of isolated particles of interests are the basic building blocks of the economic domain. They intimately interact with the environment and hence require a *cyclical* instead of a linear process of ordering interests. In networking the quest is for utilization value, not self-interest: coherent superpositions of interests. Such configurations are the product of a process of joint idea development. Key capacities for utilization value include: *transition ability* in order to travel to and fro different webs of interests and to strategically position for the best propinquity of interests; the capacity for multi-rationality and the capacity to maximize the *rate of alertness*. With positioning, which is important when externalities occur, we saw that the Law of Distributivity was rejected, as was Pigou's calculation of Pareto optimality. Instead we opted for Coase's private bargaining approach because '*personalistic experience*' is superior due to its *permissiveness* which allows for multi-rationality

whereas 'formal calculation' would require ante rem selectivity. This superiority of permissiveness in the case of externalities and 'civic' economy was further reinforced since households were considered 'open systems'. Their *non-state-determination* and *non-particularity* impede predictability as per mainstream economics' models. Here *new* sets of inference rules are to be adopted resulting in different *modus operandi*. Adequate descriptive modelling of such behaviour requires new forms of logic (multi-dimensional). The *inter alia* character of rationality is the conclusion and starting point for the investigation of chapter 6 into two major forms of rationality: instrumental and intrinsic.

*Chapter 5 Rules of inference in order and chaos:  
particularity and process*

---



## 6.    INSTRUMENTAL RATIONALITY AND INTRINSIC RATIONALITY

Rules of inference indicate how basic elements can be combined: how conclusions can be inferred from premisses. Selection of which rules apply is both arbitrary and normative, but one which is beyond selection and constitutes the bare minimum of rationality is the Law of Non-contradiction. An interesting study on the arbitrary selection of inference rules is the comparison by F. Staal between western and non-western systems of logic, and especially the applicable rules of inference that apply to the tetralemma or "*catuskoti*"<sup>57</sup>. Such studies show the *arbitrariness* of applying certain rules, and the '*inter alia*' character of a specific type of rationality in domains of human behaviour other than economics. With respect to the latter we arrived at the *same* conclusion in the previous chapters.

The ability of adopting different kinds of rationality so as to combine different interests into a valuable common result - a coherent superposition - is the crux of the matter when we orientate economic behaviour on the ordering of interests towards utilization value. Here we consider individuals as open systems. Their interests are *not particular*, and their context *not stable*. Therefore the interests' combining processes should not be formalized, as we have seen, but experienced personalistically: they have their own logic of combining, of exchange, their strength is their lack of any a priori norm about the *modus operandi* and hence practice an *inter alia* character of rationality<sup>58</sup>. The enhanced ability for multi-rationality results in permissiveness in combining interests, not a delimitation of their exchange according to *a priori* norms. However, the allocation according to self-interest is such a *a priori* norm and hence decreases the ability for multi-rationality. In some instances it can be effective, in others it is not: a *a priori* adopting self-interest

---

<sup>57</sup> Staal J.F., *Exploring Mysticism*, 1978, HET WETENSCHAPPELYK ONDERZOEK VAN DE MYSTIEK, SPECTRUM 1978, page 48-53.

<sup>58</sup> Stez L., *Op. Cit.*, page 260.

as *the* norm of economic behaviour should therefore be prevented.

Various types of rationality need to be studied instead, in order to answer some basic questions which arise as a result of *being 'open' to* different rationalities. Does permissiveness imply that we ultimately depend on the course of events, i.e. on chance? Is a fruitful interaction of interests then just a stochastic process? And is the rate of alertness then the unique determinant of a household's economic success? What *modus operandi* would apply? To answer these questions we will now focus on the two different *modi operandi* of intrinsic and instrumental rationality, and start with the former.

Intrinsic rationality essentially consists of the inference rules of Non-Contradiction and Correspondence

The Law of Correspondence applied to external goods leads to means-end relations

.....but it leads to relations of another kind in the case of intrinsic interests

The *modus operandi* of intrinsic rationality is determined by a certain set of inference rules: the Law of Non-Contradiction and the Correspondence relation between part and whole, between element and class to which it belongs<sup>59</sup>. The correspondence relation usually expands over goal and means and is alternatively named the Law of Appropriateness of means and goal.

The latter is an important observation and from it we derived our conclusion (see chapter 4) that if the whole - or the class - recognizes '*utility as the essential drive* for structuring a system then '*being of utility*' becomes a decisive and all-pervasive quality of *all* its parts or elements too. The *correspondence* of elements then consists of '*being of utility*'; any element being a means for the hierarchically prime element. Means-end chains are the result. The means-end chains - and cause-effect relations - necessarily result in a *means-end hierarchy*, indicating the correspondence relation that goes with utility: having a function in the sense of *serving an external purpose*, an external good. This is the most common correspondence relation in mainstream economics.

There are other ways of defining the correspondence relation; not necessarily should it be deduced in the instrumental sense with the identification of an *external*

---

<sup>59</sup> Beth E.W., MODERNE LOGICA, Assen, 1967, page 98.

good. Instead the focus can be on the extreme opposite of interests serving an external good: interests being interests not because of serving something else, but because of they themselves, i.e. their end is they themselves. Intrinsic interests or *intrinsic goods* have their purpose in themselves (not teleological but deontological). Such correspondence relation can not be deduced in the instrumental sense: it can also immediately be 'seen'.

Therefore it needs a *faculty other than instrumental reason* from which such correspondence relation can be *induced* into the reasoning system. Although this is an easily recognizable fact of normal human behaviour it has not received adequate attention in economics. But it should be given appropriate attention if economics' claim that it deals indeed with human behaviour is to hold. This faculty is known as 'intuition' and, in German, the "...aloffene Vernunft...". It can adopt the form of (artistic) inspiration, or of entrepreneurial impulse or of 'entheousiasm'. The latter has been defined as 'Begeisterung' by Hegel <sup>60</sup>:

*"... Sie ist nichts anderes, als von der Sache ganz erfüllt zu werden, ganz in der Sache gegenwärtig zu sein...."*

The above description fits the notion of entrepreneurial behaviour very well. It is therefore remarkable, that faculties like this have been neglected. They are among the strongest driving forces for economic success and their *modus operandi* can be of utmost economic efficiency.

One of the characteristics of intrinsic interests is that means and end, cause and effect, the 'why' and 'what' coincide. *Causa finalis* and *causa efficiens* are in enthusiasm perceived as one and the same although physically they might constitute different activities altogether. Whereas with an instrumental rationality we usually experience that cause and effect, means and end,

*Such different relations require other faculties:*

*.....intuition,  
inspiration,  
enthusiasm.....*

*.....which are  
important  
driving forces for  
economic action*

*With intrinsic  
interests cause  
and effect coin-  
cide implying a  
non-hierarchical  
ordering*

---

<sup>60</sup> G.W.F. Hegel, VORLESUNGEN ÜBER ASTHETIK, 1888. Hegel replaced the original Greek EN-THEOS (being with the gods) with 'die Sache'. This most secular transformation enabled its use in an economic context.

are distinct and one is external to the other albeit with a serving relationship between them, we now experience that interests do *not* necessarily have to be *either* a means or an end. Instead they can be both at the same time. With enthusiasm we typically do not know why we do it, but we do it because it is felt appropriate to do it. Just because we are 'full' of the cause itself: "... ganz von der Sache erfüllt...". Coinciding cause and effect is *implicitly* a non-hierarchical ordering of driving forces. Such non-hierarchical relation predominantly occurs in case of value-motivated behaviour and not instrumental (or teleological). For the moment we conclude that the driving forces of households can be discriminated from other driving forces by the very fact that cause and effect coincide as an intrinsic relation. Means and end are not hierarchically related and superimposed on each other: the end is the means, and the means is the end, both are implied at the same level of priority in economic action.

*Intrinsic  
rationality rejects  
the Excluded  
Middle.....*

*.....and accepts  
multi-  
dimensional  
rules of inference  
(non-binary  
logic)*

*.....which are  
appropriate to the  
very nature of  
values*

With the intrinsic correspondence of part and whole, which denies an instrumental means-end hierarchy, a different set of inference rules will apply. Usually we can experience when means are external to and distinct from the end being pursued. In that case a hierarchic ordering is achieved through the application of the Law of the Excluded Middle; either an action is a means, or it is a non-means. In the case of a non-means it then *necessarily* is an end because *all elements are means or end by nature* since utility applies. Thereby the location of an element in the means-end hierarchy can be determined. However when we experience cause and effect, means and end *coincide*, and then the non-external and intrinsic relation denies 'utility' or the 'law of the Excluded Middle', or both. Then an act can firstly be a means, or secondly an end, or thirdly both end and means simultaneously. Because of the three alternatives we can conclude that the Law of the Excluded Middle does not apply. Such Intrinsic Correspondence *twinned* with a rejection of the Excluded Middle characterizes intrinsic rationality. It therefore adopts a non-binary logic.

What other rules of inference apply instead ? Not the two-valued binary function of either means or end, but a

multifaceted rule of inference of the intuitionist or quantum logic kind. The domain of inference is not binary, not restricted to binary 'either-or' alternatives only, but open to many worlds, in many dimensions: it is multi-dimensional, multifaceted, as viewed from a many-worlds stance <sup>61</sup>. Viewed according to this quality the non-binary rule of inference is indeed appropriate for "value", whose very nature itself is open and therefore multi-dimensional.

Without the Excluded Middle being applied to utility of either means or non-means, it will no longer be possible to build a hierarchy: a means-end chain presupposes either quality to be attributed to the interests. But not being able to hierarchically order does not imply that order is no longer possible: it *only* implies that a *hierarchic* order cannot be established. A value or global aim or *non-particular interest* can never be ostensibly defined as a particular objective or as a particular interest can, which is the case with self-interest <sup>62</sup>. Experience with non-particular interests suggests that the most appropriate approach to a definition is of a negatively ostentatious nature. This means not stimulating what to do, but *what not to do* instead; ostensibly restricting what not to do instead. This is a different mode of achieving 'order'.

*The approach of intrinsic rationality is different: not hierarchical but directional of 'what not to do'.....*

The *ambiguity* of values and the non-particularity of such interests or driving force further reinforces *through their nature* the rejection of the Law of the Excluded Middle, and the acceptance of multi-dimensional rule of inference. A value can never be limited or defined as a particular element. Herein lie both its weakness and its strength. The ambiguity or non-unidimensionality inherent to values is adequately catered for by faculties

---

<sup>61</sup> In English: "MANY WORLDS VIEW", THE DANCING WULI MASTERS, Op. Cit., page 305.  
In German: "Mannigfaltigkeit, Vielfachkeit", see Karl Jaspers, NIKOLAUS CUSANUS, München, 1964.

<sup>62</sup> A practical implication for the interface management of projects with non-particular interests is that individual property laws do not apply in the start-up phase. Legal research is needed to discover what alternative legal means apply.

which apply multi-dimensional rules of inference, such as imagination, intuition or enthusiasm <sup>63</sup>.

An example in economics of ordering non-particular values and aims, and adequately honouring ambiguity and non-particularity can be found in 'civic' households like The World Nature Fund, or Urban Development Corporations. One can never define their interests exactly. For example, interests like the 'beauty' of a city to be generated by the Urban Development Corporation, or the 'love of nature' of the World for Nature Fund household cannot be defined. To treat these as just instrumental interests of a particular kind of people maximizing their self-interest would lead to applying the wrong type of rationality to their economic behaviour. One can only say that such values indeed *do constitute major driving forces* for such households. Again formalization is less adequate for these interests than cultivating the permissiveness of personalistic experience.

.....as well as  
potential  
correlations of  
differently  
natured interests  
to create

The rejection of the Excluded Middle (and utility), because their ambiguity in nature has priority over neat ordering, implies that interests of a *different nature can simultaneously co-exist*: rejecting the Excluded Middle allows for multi-dimensionality instead of a binary type valuation. Such multi-dimensionality (of *modus operandi*) is indeed appropriate to the ambiguity of and in nature. In the cases of ordering different forces (:chaos), other principles of ordering apply instead of only hierarchy and means-end chain. In these cases the faculty of intuition allows for a higher rate of alertness, as mentioned in chapter 5. This concept describes degrees of potential correlations *between simultaneously present interests of a different nature* and consequently requires the capacity to adopt multi-rationality. A household's rate of alertness measures the number of potential correlations between its own driving forces and other household's interests, amongst which a coherent superposition could occur.

---

<sup>63</sup> Enthusiasm, or entheosiasm.

The ordering of economies originates where and when interests amalgamate in a coherent superposition. The adaptability to different kinds of rationality in *various strata* of interests and *levels* of a 'project', and the capacity to effectively *integrate diversity*, consequently determines if the *development potential* of a coherent superposition can indeed be realized. The rate of alertness is therefore a key concept in the quest for utilization value.

Since our analysis focuses on the various *modi operandi* adopted by households it is important to remember that: cause and effect are *not necessarily* "hierarchically" chained in the sense of means and end, the one leading to the other. They can coincide instead. Notwithstanding this fact the hierarchy of means to end is an omnipresent phenomenon in mainstream economics. It enables a stable order and neat *economic modelling*. But as we have observed such instrumental rationality is not the sole ordering mechanism for the driving forces of households. Economy can also be based on the above described intrinsic rationality of driving forces such as 'values'. For example, some consumers nowadays prefer paying more for environmentally cleaner products or cooperatively branded coffee. Whereas paying more is experienced as negative to direct self-interest, less pollution can only be experienced indirectly. And cash outlays influence self-interest according to neoclassical economics whereas protection of the environment is considered to be experienced indirectly only and therefore a general interest. Clearly the latter non-particular interest or value is here on par with the particular self-interest. Describing such behaviour through the integration of the intrinsic interests as partaking in the (indirect) self-interest might suffice for modelling purposes. Nevertheless this still risks *not appropriately addressing* the allocation decisions of differently natured interests by applying instrumental rationality over values which should be addressed *intrinsically* instead.

*In this pursuit the rate of alertness is a key concept*

*Mainstream economics does not appropriately address intrinsic interests.....*



.....notwithstanding the fact that superposing interests of different natures , i.e. intrinsic with instrumental, proves most valuable

It is remarkable that such values and the faculties allowing for intrinsic rationality are so incompletely dealt with and even neglected in economics because they provide for an ordering force which is economically spoken of *utmost efficiency*, and because they are also among the *strongest* driving forces of an individual household. To neglect the successful application of such driving forces because they differ in nature from instrumental forces would therefore be a mistake from the stance of utilization value (and possibly even uneconomic from the stance of self-interest maximization).

However, it is still the case with mainstream economics that such mixes of interests, general and self, intrinsic and instrumental, public and private, are often, and even institutionally, neglected because they differ in their *modus operandi*. As externalities they are neatly labelled and then excluded from the realm of economic action and conveyed to the realm of politics. On the other hand, a considerable number of households are indeed based upon such interests' combinations, as exemplified by the 'civic economy'. Such combinations typically include linking interests of an entirely different nature: the commercial *Return on Investment* (ROI) of a bank with the *values* pursued by a 'civic' household. For example, NMB Bank combines its highly profitable bad debt conversion activities with the World Nature Fund's nature protection in the so-called "*bad-debt green equity swaps*" <sup>64</sup>. In this case, the bad debts of 3rd world countries are bought at a discount by the bank and sold to the WNF not-for-profit organisation who then buys nature reserves in the debtor countries to protect rain forests from destruction. Such coherent superposition of differently natured interests constitute highly *creative solutions to society's problems* which hitherto had not received adequate attention, notwithstanding their *promising potential*.

---

<sup>64</sup> INTERNATIONAL HERALD TRIBUNE, January 4th 1991, Lovejoy T. "A way to aid debtors and the earth".



To take into account such alternative routes based on utilization value we summarize an alternative *modus operandi*. Intrinsic rationality is characterized by the acceptance of Non-Contradiction and of Intrinsic Correspondence twinned with the rejection of the Excluded Middle. Therefrom results a more open, multi-dimensional inference rule which is different from a stochastic combination of interests because the human mind is able to intuitively make inferences. It avails of suitable faculties which enable *correlative inferences* to be made: the *correspondence* relation between means and end is thereby a most *intrinsic* one. Means and end, cause and effect, the 'why' and 'what for' coincide; *causa finalis* and *causa efficiens* are not separated as is the case with the means-end chain. The ordering of interests is here not achieved through hierarchy but through the integration of diversity.

*Intrinsic  
rationality  
summarized*

Prior to proceeding with an analysis of instrumental relations we make two last observations. Firstly, the initial and principal ordering of interests through enthusiasm or intuition is often refined at a later stage through instrumental rationality. Such rational refinement or engineering then turns out to be complementary to the principal ordering by imagination. Hence (instrumental) *engineering* following (intrinsic) *imagination* can properly be called "imagineering". Secondly, man knows from life time experience that the greater part of our ends cannot be stated in advance of their realization: hence the *necessity of intimation* of ends and means through imagination. It is through the search for '*the appropriate*' that man may herald in the immediate present those aims in life which are not immediately identifiable otherwise, especially in the case of complexity<sup>65</sup>. Economics *induces* such ends as axioms *but* through its standard *modus operandi* *treats* them instrumentally. However, we have concluded above that faculties like imagination, intuition and enthusiasm fulfil a far greater role in the ordering of driving forces than allowed for by neoclassical economics. *Not yet* has a 'sense' of adaptation to multi-rationality been developed

*Imagineering  
defined*

*Since we often  
cannot know our  
ends in advance  
of economic  
action,  
imagination is  
required.....*

*....but economics  
is deficient  
without  
concepts such as  
imagination  
which allows for  
multi-rationality*

---

<sup>65</sup> Roger Scruton, *AESTHETICS OF ARCHITECTURE*, Oxford, 1981.

in the *modus operandi* of economics, although intrinsic interests are dealt with through induction. The classic concept of the households' *modus operandi* is exclusively instrumental.

*Instrumental rationality also consists of the inference rules of Non-Contradiction and Correspondence*

Let us therefore proceed by focusing on how instrumental rationality functions, which inference rules are adopted and in what ways it differs from intrinsic rationality. The *modus operandi* of instrumental rationality is similar to intrinsic rationality insofar as it also accepts both the Law of Non-contradiction and the Correspondence relation<sup>66</sup>. But it differs in *how* the correspondence relation *materializes*: not by correlative inference or induction from faculty, but by deduction from a given end (objective) to means or vice-versa. Such reasoning is logically permissible because of the paradigm that any element possesses the quality of *utility*, attributed to any element, any interest, any economic act.

*But through the premiss of utility, Correspondence leads to hierarchical relations.....*

As we have seen in chapter 4, the classic rational and utilitarian method uses "utility" as the basic building block of universe, so that any individual (: element) has a function and hence can be positioned in a means-end chain allowing for a hierarchically-built community (: system), so that "having a function" becomes transcendent: the very trait of all elements. Therefore one common denominator - 'commensurability' - applies throughout the economic universe: utility.

*.....which is necessarily all-pervasive.....*

Utility produces *commensurability*. One common denominator for all elements allows for a *maximization calculus* amongst alternative elements, if and when utility can be oriented in one direction. The single direction of self-interest therefore not only creates stability in the order as all elements assume this direction, but it enables the maximization calculus to be executed. The chain of utility, commensurability and maximization calculus is, on the condition of the single direction of self-interest, the core of the mainstream economics' method (see fig. 3, chp. 4).and therefrom

*.....when associated with self-interest as the one single direction of all economic activity*

---

<sup>66</sup> Correspondence seems indeed to be a necessary condition of rationality as a whole, whether or not it is also sufficient. See Sen A., *Op. Cit.*, page13

results its main paradigm. *The accumulation of utility, or means to potentially acquire utility, distributed towards the self directs the economic agent's rational choice.* At least that is the major assumption being made by mainstream economics. If and when *consistently* pursued (see Sen, Op. Cit.), the normative claim holds that self-interest maximization by *all agents at the same time* results in the maximization of the general good. Thereby mainstream economics is 'complete', both as a method and ethically.

The commensurability and consistency of a single direction in the economic behaviour of ordering interests - and *one only* for all private households could not have been achieved without the acceptance of the inference rule of the Law of Excluded Middle in conjunction with the Law of Double Negation. The fulcrum is the twinning of these two rules. The construction functions as follows: an action of man is *either* directed towards the self *or* towards the non-self, *without a third possibility*. With self-interest as the directional drive, the Law of Excluded Middle leads to exclusively considering self-interest as the sole determinant of behaviour, *without any third possibility* (in its own right) of *mixed interests* or mixed modi operandi. The exclusivity of maximizing self-interest is reinforced by the addition of the Law of Double Negation to the Law of Excluded Middle:

$$- (- A) = A$$

A= self-interest;

-A= non self-interest (non self=general)

which are here both of the same order.

*Consistency of this direction is the fulcrum of mainstream economic thinking.....*

*.....and it is achieved through twinning the Excluded Middle and Double Negation*

Hence, economic action is directed towards either 'I' or 'non-I' (= 'they') thereby excluding the direction of 'we' (community) interests

The 'we' interest is instead dissected into an 'I' component and a 'they' component.....

.....and even non self-interested behaviour is translated to satisfaction of the self through altruistic behaviour

A major implication stems from such exclusivity. A direction towards 'us', the I and the other; or simultaneously the self and the non-self or towards the 'community of which I am part', is not considered in its own right (of a mixed interest *per se*). The domain of possible economic action is limited to either the self or the non-self: either specifically private or general public interest. The strict dichotomy excludes the general interest *per se* from the realm of private interest. The direction of 'we' has no *raison d'être* apart from serving the self. The self-interest maximization paradigm is safeguarded (closed circle reasoning) in the case of an agent acting in the interest of 'us'. First, such action is dissected in its 2 elements<sup>67</sup>; self-interest and non self-interest. Consequently the latter is translated to satisfaction of the self through altruistic behaviour, so that in the end self-interest nevertheless remains the one and unique driving force.

Having explained how the exclusivity and consistency of self-interest maximization as the one direction of all economic behaviour can be achieved, we now focus on the resulting *modus operandi* of beneficial competition in the market economy. In such a system all private households are supposed to aim at maximizing their self-interest. Through the consistency of direction of all elements orientated towards the maximization of self-interest - without exemption - the most effective ordering of the overall system is generated. Without this consistency the general interest cannot be assumed to be maximized. Self-interest maximization is hence saved from moral rejection because of the claim that unfettered competition amongst equally created and striving individuals would not only lead the best to survive but also to the maximization of the general interest. Herein lies the importance of the consistency and hence the binary exclusivity of self-interest or non self-interest (general interest) expressed through the private sector as the domain of the former and the public sector as the domain of the latter. By excluding interests related to 'us' and reinforcing the dichotomy of either self or general

---

<sup>67</sup> As in classic physics "light" is dissected in its supposedly vertical and horizontal components.

interest, the own nature of the other's interests *per se* is neglected and excluded from the realm of private economic action.

As a result, all efforts of the individual fully focus on self-interest only. The full focus is on self-interest only with beneficial competition amongst private households in the market. Such competition is considered a beneficial part of the economy. Intensifying competition is the result. But not competition in the *negatively* defined sense of the other being a competitor to the self aiming at destruction, but *positively* defined as beneficial to the common good as long as the full concentration on self-interest is therein focussed: the other's interests are of no concern, of no factual influence to the self and hence to be neglected. The concentration of efforts on one's own driving forces would further their maximization and hence contribute to the general interest. Under the banner of Darwin's 'survival of the fittest', competition understood as excluding the other was no longer felt morally unacceptable, but instead as *beneficial to the other since enhancing the general good*. Self-interest maximization became morally acceptable at the cost of excluding the 'we' or community interests. But *these* are exactly the interest combinations which occur in the ever growing number of externalities.

Not only mixed interests but also value-based economic behaviour are wrongly addressed; self-interest maximization in competition is of a distinct nature of 'utility'. Any other element in the classic universe is also being attributed this quality. From this nature and the combination of inference rules it follows that any interest is either a means or a non-means, and if a non-means then necessarily an end, excluding any other possibilities. As any interest would hence be at either side of utility - the end or the means - a hierarchic order could be built. Neat means-end chains allowed for a stable and instrumentally ordered hierarchy. Indeed, instrumental rationality can hardly cope with any driving force of a nature which defies 'utility', such as an interest does, being both an end and a means: it cannot position such force at either side of utility, and therefore cannot integrate it in its means-end chains.

*Self-interest maximization has resulted in the maximization of the general interest on the premiss of consistency of behaviour*

*From this premiss the exclusion of mixed interests was normatively acceptable*

*We conclude that values can also not be dealt with by instrumental rationality.....*

*.....because it deforms these primary driving forces; in other words, instrumental rationality compromises their nature*

*A comparison of Instrumental and intrinsic rationalities: similarities and differences*

Driving forces of this kind, e.g. moral values, are hence excluded from the allocation calculus and *rejected* in actual economic decision making. Alternatively, when they are included they are bundled with community interests, as described above: *not in their own right* in association with rules of inference which are adequate to their own nature *but as disguised self-interest* actions. They are *treated* by applying the Laws of the Excluded Middle and of Double Negation which are inappropriate to their nature as we have seen in chapter 3. These inference rules deform the multifaceted and boundless value into a tangible 'thing' with identifiable boundaries and a specific function<sup>68</sup>. In this way a value is artificially assigned qualities in order to be located in a particular means-end-chain. It is only by inadequately dealing with values by assigning them the nature of utility applicable to all other elements of the 'instrumental universe', hence ordering them as either means or ends, that the system of mainstream economics functions. In other words, instrumental rationality cannot cope with values in their own right, but can integrate them in its *modus operandi* on condition that they undergo a deformation. We may conclude that neither values nor mixed interests are appropriately dealt with in mainstream economics: their proper nature is fundamentally compromised by instrumental rationality.

Here we have arrived at the end of our description of instrumental rationality, its *modus operandi* through the market and competition and its approach to intrinsic values and/or mixed interests. As to a *mutual comparison* of intrinsic and instrumental rationality it suffices here to conclude that instrumental rationality is *similar* to intrinsic rationality insofar as both accept Non Contradiction and Correspondence. And it is *different* in three aspects. Firstly, in its external relation of means to ends instead of intrinsic. Secondly, in its acceptance (instead of rejection) of the Excluded Middle. And thirdly, in its twinning of the Excluded Middle and Double Negation as opposed to the multi dimensional nature of intrinsic rationality.

---

<sup>68</sup> In German: ".....Verdinglichen von Werten.....".



Although the above critique <sup>69</sup> on the instrumental rationality of mainstream economics could be extended, something else is more important to our aim of comparing *modi operandi* of various households prior to summarizing this chapter. Having focussed on the way we think (:inference rules), we can infer how we deal with (:modus operandi) a growing number of complex problems.

Unfortunately, instrumental rationality *ignores* the real complexity of ordering man's driving forces and his need for interests variety and enrichment. The forced simplicity of the either-or theory of economic behaviour results in *over-simplification*. Where simplicity cannot work, simpleness results. And to expect that simpleness can tackle the modern life problems of externalities, as for example, environmental issues, is like wearing Don Quichotte's clothes in dealing with windmills or Baron Munchausen's in driving sand.

On conclusion, we summarize this chapter as follows:  
First we saw how various kinds of rationality can be construed according to which set of inference rules is applied. We concluded that rationality in *economy* is of an *inter alia* character and that *so it should also be in economics*. Contingent on the basic element and on the direction of a system's ordering, is the selection of the appropriate set of inference rules. If utility is the basic element and self-interest maximization the basic direction, then instrumental rationality is indeed an appropriate rationality - and on the premise that both are appropriate to the nature of the interests to be ordered in the household. Only by applying the maxim of *appropriate* rationality can we derive the adequate conduct for ordering alternative interests. Thereby individuals and households with different combinations of interests can achieve the release of the latent potential of a coherent superposition of interests. The adoption of different rationalities will therefore prove essential and we will therefore concentrate on how such platforms of multi-rationality function in part IV: the practicalities of

*Instrumental rationality alone is sometimes inadequate because it oversimplifies the complexities of economic life*

*Therefore we adopt the inter alia character of rationality.....*

---

<sup>69</sup> See Sen A., Summary of a similar critique by him and others, Op. Cit., p. 11 and p. 16, 17.

the actual process of interests meeting interests, all in search for utilization value.

.....not applied by mainstream economics

The stance which we have taken is to focus mainly on the outward phenomena to which the actions of various individuals and households give rise, and accept any driving force as such: in its own right, with its own rationality and own *modus operandi* since 'appropriateness' is our adagium. Thereby we will no longer confine ourselves, as standard economic does, to the (instrumental) rationality of either the state's hierarchic ordering or the market's competitive ordering. Unfortunately economics has so far chosen to apply only one kind of rationality since this enabled the construction of a homogeneous and consistent framework of thought. Although this application has improved the efficiency of economic thought and prescriptions, it can lead to an inadequate response if used to tackle the complexity of mixed interests, e.g. in the case of externalities. It also inadequately describes the case of non-market, non-state transactions of the emerging 'civic' economy.

.....and as a consequence we accept that we have to answer the question of which rationality is appropriate each time afresh

Thus our critical review of what constitutes standard economic rationality in ordering interests, has led us via the observation of the *inter alia*-character of rationality to the question of *appropriate* rationality.



7. **APPROPRIATE RATIONALITY: CONTEXT, OBJECTIVE AND FACULTY**

The nature of the rational ordering of interests can be of different kinds. Therefrom stems the question of appropriateness of economic behaviour. Its appropriateness depends not only on the nature of interests as explained in chapter 2, but on what kind of order prevails in the context of an action, be it chaos or stability, as well as on the cause or effect of the action - driving force - be it utilization value or self-interest or any other. Although context - where - and driving forces - why & what - first determine the required nature of rationality, it is through human faculties that various manners of ordering - how - are realized. Therefore, faculty is also a determining factor. In summary, context, objective and faculty (in relation to interests) are the three main factors which determine the kind of rationality to apply.

Having explained the first two factors in previous chapters, we will now focus on the human faculties. In an artistic context the driving force of creating something beautiful will not ask for instrumental reason but first of all artistic intuition or inspiration. On an oil platform, on the other hand, the driving force of drilling will require straightforward instrumental thinking, not inspiration. Here differences in rationality are clear. But it is less clear in politics which require the communicative endowment in order to gain a majority, and in economy which requires the good product-market combination to gain a market share. Here it is *difficult* to answer *what* kind of rationality and *which* human faculties apply. For both, particularity is mixed with imagination. Particularity is required in politics to package words so as to convey the relevant message, and in economy to package an investment so as to generate the required results. Both require imagination to stir people in listening and/or buying. It is the public choice school which very much concentrates on the similarities of structures in politics and economics by considering both as a market. We conclude with the observation that various kinds of rationality should co-exist since we do

*Appropriate rationality depends on 3 variables: context, objective and faculty*

*Multi-rationality occurs when different faculties are simultaneously needed*

not always know in advance (prior to a stakeholders' analysis) *which* kinds apply in a particular case.

Blending  
different  
rationalities is  
hence an  
important  
ability.....

.....on which the  
quality of the  
common results  
depends

The key for such  
adaptability to  
multi-rationality  
is the  
simultaneous  
recognition of  
the 3 variables

The crux is that such different rationalities are to be *combined* with a productive result. The case of product design testifies of this: the results of both intuitionist heuristic processes and instrumental reasoning (engineering logic) are combined resulting in a form of stochastic, intuitionist and hierarchic ordering. One can observe that several kinds of reasoning consisting of different natured rationalities can *simultaneously* apply. Even the manner itself of blending the various forms of rationality can vary: in *linear succession* (like slides in a row) or in *blended succession* (like a movie film). Switching from one kind of rationality to another can each time result in a *different* outcome, a different product. The quality of the outcome is therefore co-determined by the capacity for multi-rationality <sup>70</sup>.

In structuring driving forces and ordering interests, the core activity of economy, the ability to adopt and blend different *modi operandi* is indeed of foremost importance. The key for the ability to effectively blend diverse rationalities is not to give priority to either context, interests or faculty over the other, but instead to recognize each of them in their own right: the *balancing* act is most important. After recognizing the conditions set by the context or environment, (e.g. stable order versus chaos), the kind of ordering inherent to the driving force of an action, (e.g. moral values or a functional command), as well as faculty (any ordering manner follows from a specific human faculty, e.g. intuition as compared to ratio), the kind of rationality can be selected accordingly. The chosen rationality determines the economic agent's *modus operandi*.

---

<sup>70</sup> How the quality of *urban development* is determined by the multi-rationality for which the various decision makers - investors, municipality, architect - should cater, has been the subject of Public-Private Partnerships, MSc Thesis, P. Kloppenborg et al, TU Delft, 1987.

An *adequate* *modus operandi* would *orchestrate* the diversity of environments, interests and faculties. Usually, however, the ordering of interests does *not* examine all three together, and gives priority to the type of rationality that is implied by either one instead. Most often it is the *context*, especially its structure of market or state, which prevails over the specific nature of interests at hand and/or faculty because of their *sheer presence*. The state mechanism and/or market system then dominates the interests' ordering process. Non-market or non-state structures, as for example, 'civic' structures, are not given due consideration although they have often offered *more appropriate* vehicles because of their different *modi operandi*, if context and objectives had been recognized in their own right. We conclude that such structural *predominance* often occurs in the thinking of economists who do not have an open eye for orchestrating diversity. This weakens the success factor of multi-rationality in the core economic activity of adequately ordering interests.

If and when such undue predominance is the case and a selected rationality inadequately ascends over an other, thereby weakening a specific interest, *correction* is needed.

Dysfunctionality of *modus operandi* starts whenever a particular form of rationality is applied on any ground other than '*appropriateness*'. As indicated above, the sheer 'presence' of the state and market structures with their embedded rationality is *insufficient* ground for applying their rationality, although it is everyday practice to do so. Its dysfunctionality, however, is only experienced as soon as it leads to problems; of these externalities are a good example of such dysfunctionality. Often with a mix of different interests the market or state structure is dysfunctional. In order to prevent such dysfunctionality from occurring and/or to solve it the appropriateness of the rationality applied should hence be considered. The question of appropriateness is however only effective if the economic agent can avail of alternative rationalities in his ordering of interests. In chapter 6 we concluded that indeed rationality is of an *inter alia* character. Apart from instrumental, other types

Usually priority is unduly given to context ("stable order") whilst objective and faculty are assigned to second place

This needs correction.....

.....by striking a balance among context, objective and faculty in each case

of rationality were shown to exist. Hence, we can effectively question the appropriate type of rationality. Furthermore, *posing* the question itself implies that something external to the existing (structural) devices with their embedded form of rationality is to provide an answer to our question. This conforms to the stance chosen at the start of this study: the object of study was the most valuable combination and/or allocation of a specific set of interests per se, not the study of how to improve such allocation within either market or state structure (= logistic economics). Attributing priority to utilization value therefore necessarily results in adopting a form of multi-rationality which is broader than the rationalities adopted by market and state. This will conflict with an alternative priority such as the improvement of the interests' allocation process within a given structure. Were we to give priority to the latter, we might end up compromising the very nature of intrinsic interests resulting in values being instrumentalized under the banner of self-interest maximization. We have however chosen the different stance of optimizing the utilization of all interests and in this framework questioning the applicability of rationality is therefore appropriate.

*Hence, no a priori priority is to be assigned to any one of the 3 variables.....*

Appropriateness consists of examining the 'trade-offs' between the qualities of context (where), of driving forces (why & what), and of the human faculties (how) required for their realization. This examination should each time again be made at the initial stage of any economic activity. Choosing the appropriate rationality is hence highly *localized* and *contingent*: each time these three factors vary and form different configurations. As with any trade-off *no a-priori priority* is to be given to either of the three; context, interests and faculty. It is in a non-hierarchic shifting of the three that overlaps of required rationalities are to appear and the potentially most coherent superposition is to be found.

*.....although mainstream economics does*

Mainstream economics, on the contrary, has so far assumed that qualities can be attributed *a priori* and *ante experientiam* (see chapter 5). For example, a stable context (a stable set of preferences etc.) to enable the principle of '*ceteris paribus*' could be applied. Other *a priori*

attributed qualities include: *one particular* interest directing the maximization of a household's utility, hence either self-interest for private households or general interest for public households; an *instrumental* ratio as all elements of the universe are conceived as 'particles of utility' to be ordered in the means-end chains of a mechanistic universe; and locating the distinct utility particles either in a context of competition (*market*) from which exclusive behaviour towards the other follows, or in the context of political imperatives (*state*) from which hierarchy follows.

The quest for utilization value starts by rejecting the above a-priori assumptions of mainstream economics. Nevertheless, what we proclaim as starting point is *not* a *tabula rasa*, but the *non-hierarchical* ordering of priorities and the *abandoning* of paradigms on qualities that hinder the solution of acute economic problems. The sole and unique pre-established pre-condition should be the stakeholders' reality. The stakeholders' analysis should indicate which qualities are implied and are to be attributed to context, objective and faculty. The consistency of such qualities and the direction of stakes are the sole acid test for adopting certain assumptions, which are then to be underwritten by the stakeholders themselves. Such directions can be varied: the ordering of interests to solve a problem in a non-ordered universe of stakeholders (chaos); ordering interests in behaviour which is aimed at maximizing interests; ordering interests to pursue behaviour motivated by values (e.g. charitable work); ordering interests optimizing the self-interest (high-tech firm) or the general interest, (e.g. state) or mixed interests (e.g. externalities). Such directions of ordering are to be established *without* any orthodox norms or criteria resulting from an *a priori* priority and / or unduly induced to obtain the *ceteris paribus* condition for economic modelling, *thereby negating the heterogeneity of real life economics*.

Lacking such orthodox norms or criteria, commensurability will no longer apply and a deductive approach cannot be practised. A more inductive kind of reasoning is required; therefore it is important to develop an alertness for potential mutual relations among

*Utilization value instead relies solely on the direction given by the stakeholders' analysis, through induction from reality*

*Hence, deductive reasoning is replaced by induction*

interests on the *premiss* of fruitful interdependence. This is the previously mentioned 'rate of alertness' of a household.

*Induction takes place by virtue of the rate of alertness for which both vision and proximity are needed*

To identify the degree of potential directional correlations between one's and others' interests, *imagination* or 'vision' is needed. But utilization value not only hinges on the vision of potential mutually supportive relations and on the interdependences of fruitful interests, but as well on the effective *proximity* of interests. By bringing interests to each other, physical nearness will enable such potentiality to materialize, on condition that the parties concerned are indeed able to adapt to each other's form of rationality, each appropriate and intrinsic to their own specific added value. *Commensurability* derived from an a priori priority of either context, interest or faculty will inhibit the latitude for multi-rationality and hence the rate of alertness itself. It will therefore *decrease the chance of actualizing the utilization value potential*. If such commensurability is implied by state hierarchy, where civil servants are expected to act according to *political priorities*, or to the market because of *competitive priorities*, then a correction of the vehicle for interests allocation is urgently needed, or alternative vehicles altogether.

*Balancing different rationalities is best developed within the modus operandi of an individual: it is the hallmark of personalistic experience*

The ability to orchestrate and fruitfully blend *non-commensurable* driving forces is best developed in the individual, when directing his own interests. This is because the *proximity* of different interests is *nowhere as great* as within the individual, notwithstanding the fact that his rate of alertness also depends on his vision. The will, on which driving forces, objectives and faculties depend, is intimately linked with both the perception of order and the observation of potentialities. Faculty-wise the will can choose to avail of intuition and employ a more intrinsic rationality or to avail of ratio (reason) whilst employing a mere instrumental reasoning, according to what is most appropriate in a particular situation. Through such liberty of choice to employ one of his various faculties, the modus operandi of an individual is characterized by his simultaneous mastering of both instrumental and intrinsic rationality. The latitude is greatest when he is not under the



obligation to enter into exchange since no common denominator is then needed. The overall landscape of context, interest and faculty culminates in the will of man, thanks to the proximity of interests and faculties. The diversity of landscapes an individual can orchestrate is therefore incomparably larger than a community where commensurability is needed for effective communication and exchange.

This conclusion is the basic argument why *personalistic ordering* of interests is *process-wise*, not necessarily content-wise, *more effective* than the ordering processes with objective and commensurable communication that usually applies amongst communities<sup>71</sup>.

The conclusion that *proximity of interests progressively increases the chance of actualizing the latent utilization value potential is important*. Earlier we concluded that experience should never be replaced by formalization in the case of diverse, non-ordered interests of an open household. Once communities are conscious of such superiority and have a need for non-formalized allocation of economic resources they will decide to instigate a personalistic decision-making approach mirroring the individual's. A forum, or platform, or committee of vigilance is then installed to promote proximity in order to orchestrate the most diverse intrinsic and instrumental interests. Or, in other words, to set the common agenda. Allowing for such diversity *presupposes no a priori priorities by either member* - as is the case with any individual's choice or decision.

There are reasons to believe that it is *the success of allocating interests through the individual* which has led to the classically-held belief that through the individual the most effective ordering of interests. Mainstream economics adopted self-interest maximization as the rule of conduct in economic life. The self-interest

*Within one individual agent the proximity of different interests is at its greatest although the variety is not*

*Projecting the self-interest maximization model is unwarranted for society at large.....*

---

<sup>71</sup> How this conclusion applies even for the most institutionalized of all sectors, the corporate finance system, is explained in The Economist Survey of Capitalism under the heading of "Proprietor Capitalism or Real Ownership". See THE ECONOMIST, May 5 1990.

maximization model has then been projected to the context at large: mainstream economics has *adopted self-interest to ensure the general good, too*. This is however unwarranted because in society the proximity of interests is least whilst their variety is at its greatest. And more importantly: the ordering of interests *through* the self by his mastering of multi-rationality, differs from allocating interests *towards* the self excluding the other. The former indicates *how* interests are ordered - its *modus operandi* - whereas the latter indicates *to whom* the fruits are allocated - the proprietor, as shown in figure 5, chapter 11. A proper study of Adam Smith's works <sup>72</sup> leads to the conclusion that he effectively meant the first when arguing for self-interest maximization as the best driving force for the welfare of nations, not the latter. However, self-interest maximization is still often understood as being directed *towards* the self instead of *through* the self.

*Ordering interests towards the self leads to instrumental rationality and the exclusion of others...*

*.....which is the opposite of what utilization values asks for*

The difference of ordering by the self as compared to ordering towards the self *culminates in the nature of rationality implied*. In the latter case, the rationality implied by self-interest maximization in a competitive context is instrumental rationality. Under the assumption of distinct particles of utility in a competitive context, *exclusivity* towards the other is applied if self-interest maximization in the sense of property-accumulation is the priority. And this is *not roughly different but exactly the opposite* of what the quest for utilization value is after: *appropriate rationality to blend* the diverse, interdependent, non-particular interests of stakeholders.

Experiencing the accumulation and ownership of output for the self differs considerably from enjoying the common result of an undertaking in which the self was actively participating. The difference is not in the actual user's experience, but in the possessing experience. To have the legal right of use is different from enjoying property rights. A right of access to a congestion-free road is certainly different from owning the road. In both cases, *the same intrinsic user experience* applies, which is of

---

<sup>72</sup> A. Smith, THE THEORY OF MORAL SENTIMENTS, Liberty Classics, 1976.



foremost importance, and only in the latter is ownership experienced, too.

Unfortunately it is only self-interest maximization along instrumental rationality lines which has been adopted by mainstream economics. It has enabled powerful modelling, but at the same time, it has resulted in a lack of attention for the localized character of appropriate rationality which can be selected by the individual household so that the potential added value combination is maximized. Therefore we instead do question *when* self-interest maximization and instrumental rationality are a *fallacy* leading to economic conduct *inadequate* to reality. From this it will follow when the traditional vehicles of state and market with their *modus operandi* based on the dichotomy of self-interest and general interest are inadequate (see chapter 8), and consequently what alternatives are to be sought for (see chapter 9). In the next chapter we will focus on the first question.

*When does the self-interest maximization model of mainstream economics then lead to inappropriate economic conduct ?*



---

### **Part III**

#### **On market and state failures**

---

## 8. THE ASSUMPTIONS OF MAINSTREAM ECONOMICS AND THEIR INADEQUACY

Over the last decades of economic thinking, mainstream economic theory has generated impressive results. Its powerful method has provided most productive tools to address economic problems. The method possesses all the relevant essentials of a *good method*: a *transcendent* basic element - utility; clear cut *inference rules* of *instrumental rationality*; thanks to the particularity of self-interest and commensurability of utility; a *stable* order through one all-pervasive direction - self-interest.

The method of neoclassical economic theory grants us the luxury of not having to examine what would constitute the *appropriate* rationality in each particular case. This is because it is assumed that the whole realm of economics *functions according to the same method*. But however powerful the method, the pressure of serious contemporary problems like environmental externalities makes it clear that we can *no longer afford* not to tune basic assumptions to the specific contexts, objectives and faculties. The *luxury* of enjoying a powerful method has become a sign of *decadence* in a number of events.

As we have seen, the nature of mainstream economics' assumptions is such that it tends to exclusively consider self-interest as the prime mover and the ordering of interests along instrumental lines. A short overview of self-interest and instrumental ordering will enable us to better *pin-point the inadequacies* of orthodox economic tools. We will start with instrumental ordering and then consider self-interest prior to diving into the three events which testify to these inadequacies.

The *modus operandi* of instrumental rationality has key characteristics which include, (chapter 6): commensurability, particularity and utility. A combination of the three key characteristics allows for *closed circle reasoning*: hence, neoclassical economic reasoning has its specific *internal consistency*. Internal consistency is mainly obtained through the combination of utility and commensurability. The latter is obtained by assigning

*The method of mainstream economics is attractive because it is powerful.....*

*.....but it is an illusion to expect instrumental rationality and self-interest to be always appropriate, especially in the events of externalities, value-based behaviour, chaos and/or utilization value*

*The method's internal consistency is achieved through the combination of commensurability, particularity and utility.*

economic value solely to 'functioning' whilst 'being' has none <sup>73</sup>.

Combining commensurability and utility results in a calculus which maximizes money', 'public goals', or 'self-interest'

Every economic action is furthermore judged on its external utility both in private and public households by applying the common standard of functioning as either a means or an end since utility is the common denominator. The common denominator most often used for exchange among private households to translate the rather subjective utility is 'money'; among public households the prime 'public goals' or political directives as stated in the policy papers of politicians; and within households 'self-interest'. Through the common denominator of utility a maximization calculus can be constructed: combining interests will then be in the consistent direction of maximizing the utility function, following our observations of figure 3, chapter 4. The inference Law of the Excluded Middle allows for choices to maximize this binary relation. However, optimal rational choice among alternatives is also *conditioned* because the calculus is only effective if the common denominator integrates *all* interests. If one or more elements are missing, then a new, additional weighing process has to take place: thereby the specific strength of weighing and allocation through commensurability is weakened. In such cases, *not* using the commensurable method at all could prove just as effective.

Combining utility and particularity results in a stable-order hierarchy

The following closed-circle reasoning which stems from the combination of utility and particularity constitutes the source of internal consistency of the method of mainstream economics. Utility generates hierarchy and therefore anything has its *functional* place in a means-end chain. Hierarchy of means to end is, in turn, generated by the *combination* of particularity and utility. This combination is treated as a *premiss* for any element, action or interest of a household: it is a transcendent trait of any element in its universe. Without it any clear-cut hierarchy would be distorted by cross-linkages and multi-locations of single elements. But fortunately the combination allows for only one functional place at either side of the means-end chain: particularity excludes

<sup>73</sup> Arendt H., THE HUMAN CONDITION, Chicago, 1958.

'floating elements' which simultaneously are linked to different levels of the hierarchy. Hence, a stable order hierarchy is the result which facilitates the maximization calculus.

Such hierarchy of market or state has as its measure of utility the specific interest or the general interest respectively. The stable order hierarchy is even reinforced by one all-pervasive direction of self-interest in which *all* households are assumed to move: maximization of the household's self-interest. The postulated particularity of the self-interest as an *atomistic particle of utility moving in a context of competition* goes hand in hand with instrumental rationality as both require one and the same inference rule. The Law of the Excluded Middle is essential for both arriving at particularity of self-interest and is part of instrumental rationality. Therefore self-interest's particularity exercising the exclusion of third parties not only facilitates the stable order hierarchy and the application of the maximization calculus but also enables the inference rule of the Excluded Middle to be *the pivot* linking self-interest with instrumental rationality. Thereby the closed circle reasoning and internal consistency of mainstream economic theory is completed.

After this overview on what characterizes the instrumental ordering of interests, we can start investigating the concept of self-interest: how it is construed as an atomistic particle of utility whose maximization is postulated to be the aim of the economic agent.

Sen, Etzioni and others have extensively laboured on the nature of self-interested behaviour. Why self-interest and its combination with competition has been chosen as the *prime* motor and main direction of every individual economic household is a normative choice and therefore arbitrary per se. We cannot discard this conclusion as *just* an ethical choice without any operational implications. Choosing a non-particular and non-exclusive criterion instead of self-interest, as for example utilization value, has an overwhelming effect since it immediately alters the overall process of ordering interests: it would

Particularity  
links  
instrumental  
rationality and  
self-interest:  
thereby the  
Excluded Middle  
can be applied

In fact, self-  
interested  
behaviour is  
arbitrary

necessitate a *modus operandi* of a different nature. In other, stronger words, the method of exclusively instrumental rationality would be invalidated. A totally different mode of theoretically prescribed economic behaviour would therefore result, if and when other assumptions on what constitutes the prime mover (paradigm) would better fit the reality of economic conduct.

*Self-interested behaviour according to Sen has 3 main characteristics:*

1. *Self centred welfare*

2. *Self welfare goals*

3. *Self goal choice*

*The self-interest characteristics are violated in the practice of:*

*Externalities, and.....  
.....'civic' organisations*

In order to answer the question of when the paradigm of self-interested behaviour is adequate or not, we will focus on the crisp analysis by Sen <sup>74</sup> of the three main assumptions of mainstream economic behaviour and compare these with the reality of events observed in this study. The three features are, according to Sen:

1. *Self centred welfare*

a person's welfare depends only on his own consumption and by himself only

2. *Self welfare goals*

a person's goal is to maximize his own (expected value of) welfare, not involving the welfare of others

3. *Self goal choice*

each choice is guided by the pursuit of one's own goal without any interference by (or interdependence of) others.

These three characteristics of the paradigm of self-interested behaviour often holds in real life economy. However, in other cases they don't. Our analysis focuses exactly on these situations in which the self-interest paradigm is a highly arbitrary, if not an *ineffective* paradigm.

A prominent case today where these characteristics could be questioned is the phenomenon of *externalities*. Externalities are defined to occur whenever a decision variable of one economic agent enters into the utility function of some other agent or alternatively, whenever the value of an objective function depends on the

---

<sup>74</sup> Sen A., Op. Cit., page 80.



unintended by-products of some activity of others<sup>75</sup>. By definition they violate the two main characteristics of 'self goal choice' and 'self centred welfare'. Another case where they could inadequately describe actual economic behaviour are economic domains outside market and state. In non-market, non-state (= 'civic') households the ordering of interests does not follow the lines of self-interested behaviour because the first feature of 'self centred welfare' is violated.

Having elaborated the main assumptions of mainstream economics concerning instrumental ordering and self-interest, we can now proceed with questioning when this methodology is inadequate for ordering interests.

We here stress again what we mentioned in chapter 2: the human tool of thinking is appropriate only as long as the underlying assumptions fit the reality or, in other words: the device of market or state remains appropriate as long as its premisses match the premisses imposed by the nature of the interests to be ordered. Accordingly, *neoclassical economic theory only holds as long as self-interest and the instrumental mode of organizing interests is appropriate to the context, faculty and intrinsic values added concerned and as long as the premisses of the ordering device match the premisses imposed by the nature of the interests themselves*. Questioning the appropriateness of rationality hence starts with the investigation of how closely assumptions match reality and is followed by the dissection of the mutually reinforcing assumptions which underlie mainstream economic theory, prior to proposing alternative models.

We will first investigate the cases in which instrumental rationality and/or self-interest maximization are inappropriate. These included, as we saw earlier, the following:

1. *Non-particularity or mixes of different interests*. When particularity or the resulting dichotomy of interests no longer holds. This is the case when the

*Therefore we conclude that the basic premisses of instrumentality and self-interest maximization are inadequate in the 3 cases of:*

---

<sup>75</sup> For definition, see Lin S.A.Y., Op. Cit., Introduction on page 7, 1976.

interest of the self is not conceived as a particle of utility in the sense of either self-interest or general interest and when it is of mixed nature or even not a particle altogether, as for example in the case of *externalities*.

2. *Values as interests.*

When values and other intrinsic driving forces are the prime motors for actions of households. These would be inappropriately treated if instrumentally approached as in the case of '*civic*' households.

3. *Non-ordered interdependences.*

When non-ordered interdependences prevail, e.g. in the case of economic action which is non-ordered and in the context of chaos instead of stable order, when utilization value is pursued.

1st case:  
*Mixed interests  
or externalities*

*Here particularity  
leads to  
dichotomy.....*

*.....which is a  
fallacy in case of  
the non-  
particular  
interests of  
externalities and  
PPPs*

*Does this imply  
the non-  
applicability of  
instrumental  
rationality ?*

Let us start with the *first* case. Particularity of self-interest creates a *dichotomic* orientation insofar as any action is orientated either towards the self (self-interest) or towards the non-self (general). This is a problem because most *human acts are in reality a mix* of the two. The dichotomy is even stronger in the structure of society at large insofar as self-interest is pursued in the domain of the market, the private sector, and the general interest in the domain of the state, the public sector. Both private and public households assume the interest they pursue as a 'particle of utility': in both cases their interest is assumed to be delineated and distinctly identifiable. Particularity is required at the political scene in order to convey a message with communicative strength; to win votes, to coordinate the bureaucratic organization, to plan the general good. At the market place particularity is required to package an investment so as to survive competition. A mix of the 2 interests which denies interests conceived as particular, cannot adequately be dealt with in mainstream economic theory nor by the dominant societal structures.

Nevertheless the *reality of economic life shows such mixes* in phenomena known as externalities, on which we will later focus, and in mixed organizations, like public-private partnerships (PPP's). We observe that the particularity from which follows the dichotomy of

general and self-interest is the first and foremost assumption to be labelled a *fallacy* in such cases. Does it follow that in such cases *instrumental rationality* is then also inappropriate?

To answer this question attention should be focused on the inference rules of which instrumental rationality consists of. An important part of the answer to this question is hence that when externalities occur the inference rules of instrumental rationality, especially the Law of Equal Distribution and the Law of the Excluded Middle, do not necessarily have to apply as we have seen in chapters 5 and 6. Hence rationalities with different inference rules, i.e. different from instrumental rules, could be practiced.

Finally we question self-interest maximization: does this basic assumption hold in situations of externalities ?

The problem here is not that this assumption would inadequately represent the motivation of economic agents, but that it treats self-interest as the *unique* source of motivation and instrumental rationality as the *sole* effective *modus operandi*, neglecting others. Thereby instrumental rationality is applied even where interdependences are prevalent and a more congruent and/or inclusive reasoning would further self-interest.

Experimental studies of game theoretic behaviour <sup>76</sup> show that even when there is no intrinsic motivation to cooperate with fellow-men as would be the case with values such as Kant's categorical imperative, *acknowledging cooperation* because of interdependences follows for instrumental reasons, and is more effective than the exclusion of the other through postulated competition.

Sen argues that the prisoners' dilemma proves that self-interest maximization with excluding behaviour (non-cooperative) is *only* more effective when *all* interdependences *are known*. The word 'all' even excludes 'killer-variables' which makes it a very strong premiss. Hence

*Yes, since neither  
Excluded Middle  
nor Equal  
Distribution  
apply*

*Does this imply  
the non-  
applicability of  
classic self-  
interest  
maximization ?*

*Yes, since  
unplannable  
interdependences  
prevail and  
hence Sen's self-  
goal choice does  
not hold*

---

<sup>76</sup> See Sen, Op. Cit., page 83.

his conclusion that if all interdependences are known a *non-cooperative* strategy is better for each of us, *given what others do*. Only in that case the agent's choice is guided without any interference by others.

*Utilization value would therefore be a more appropriate route to follow*

We conclude from the above that the *self-goal choice* is most effective only when all interdependences are known and that it *no longer holds if unplannable interdependences prevail* which is more often than not the case. A departure from self-interest would then prove more effective.

Such departure could result in the adoption of utilization value as the prime mover of economic action because it cultivates interdependences in the case of externalities. Apart from game theory reasoning with self-interest as a starting point, there are other grounds for concluding that "a cooperative strategy is better for the respective goals of all of us". *Straight forward reasoning according to utilization value is more effective* in the case of such interdependence problems since it chooses as its foundation the very nature of mutual interdependence. With utilization value, reciprocity is *by nature* approached not with exclusive reasoning but qualitate qua with congruent and inclusive reasoning: the common goal of a joint intrinsic added value is more important than the separate goals of each party.

In summary, the tools of mainstream economic theory, particularity, instrumental rationality and self-interest (self-goal choice) do not necessarily apply in the first case of externality situations.

*2nd case: value-based behaviour*

*Since values are not particles of utility Sen's self-welfare goal does not hold*

Let us continue with the *second* case of inadequate assumptions of mainstream economic theory: economic behaviour motivated by a mix of values and intrinsic interests. Again, the dichotomy is under pressure because such behaviour by its very nature lies somewhere between a general interest for the public household and a specific interest for the private household. But now self-interest does not hold because the feature of self-welfare goal is violated. Contrary to not involving the welfare of others, *the openness towards the non-self* is itself a determining characteristic of values. Therefore, self-

interest is *qualitate qua* contradictory to values, as, for example in the case of altruistic behaviour. The very nature of values denounces self-interest and self-welfare goals

In this case the main source of inadequacy of the self-interest assumption is the *modus operandi* implied by self-interested behaviour. As shown in the previous chapter, the *binary* nature of instrumental reasoning is less adequate to the *openness* or multi-faceted nature of intrinsic interests and of mixes of interdependent interests of a different nature. The *modus operandi* which subdues an intrinsic interest to the binary natured utility criteria would, through its very nature, compromise intrinsic interests, as in the case of values: instead of their strengths being cultivated, they are weakened. Instrumentalizing intrinsic interests would therefore be counter productive. We conclude that instrumental rationality would not be the most appropriate *modus operandi* for values-motivated behaviour. A departure away from instrumental towards intrinsic ordering requires also a device than the market with a *modus operandi* which is appropriate to the multi-faceted nature of values.

The *third* case of inadequate assumptions of mainstream economic theory is when economic action is characterized by non-ordered interdependences. This holds in a context of chaos. Also in the quest for utilization value non-ordered interdependences are cultivated. As to the features of classic self-interest, we can infer from non-ordered interdependences that they violate Sen's self-goal choice because there *is* interference by others when interdependences apply. In addition, Sen's self-welfare goal does not hold in the quest for utilization value because this would result in a one-occasion game-only whereby the other agents accept free riding behaviour. The party exhibiting such free-riding behaviour, in which he maximizes his own welfare not involving the other will then lead to him being excluded by the other agents with interdependences. The quest for the best combination of interests will therefore severely be hampered by the narrow assumption of self-interested behaviour.

*The binary nature of self-interest is qualitate qua contradictory to the multi-faceted nature of values*

*3rd case: chaos and utilization value*

*Interdependences defy Sen's 2 characteristics of self-goal choice and self-welfare goals*

*Competition impedes openness which is required to discover coherent interests' superpositions*

*In cooperative modes of economic action such as networking, selection aims at whom to include.....*

*.....whereas in competitive settings selection aims at whom to exclude; in other words competing is counter-productive for partnering*

*Self-interest maximization and/or instrumental rationality are inappropriate.....*

Postulated (not experienced) competition with exclusivity towards the other would impede the openness to discover coherent superpositions of interests. On the contrary, utilization value results in networking with the other as a basic requirement to create a partnership. This requirement is quite the opposite of competition's requirements, but in both *selection* has its role. Whereas in the former selection aims at *whom to include as a partner*, in the latter selection aims at *whom to exclude as competitor*. Therefore, the *modus operandi* of competition and its self-centred attitude would be counter-productive if *partnerships are pursued for utilization value*. We therefore conclude that also the first feature of self centred welfare does not hold.

Apart from the violation of all self-interest features, what other assumptions or implications of mainstream economics' behaviour are inadequate in the case of unplannable interdependences? Could it be that the projection of utility-hierarchy, commensurability or particularity impede potential interdependences between interests and hence a *coherent superposition*? They all imply an *a priori* result which could be less appropriate than ordering *ad experientiam* (see chapter 7): we here concluded from system analysis that *a priori* formalization is inferior to the experiential permissiveness of personalistic exchange in the case of unplannable interdependences. Pre-established hierarchies of priorities and/or commensurable utility criteria without which instrumentality is not possible are less effective in case of unknown variables: the instrumental *modus operandi* will be less appropriate than utilization value's *modus operandi* in which the rate of alertness is a key capacity.

We conclude that in the quest for utilization value and in a chaos context where interdependences are important, both the instrumental *modus operandi* and the classic self-interest maximization are more often than not inappropriate.

In all of the above three real life cases we have questioned both the applicability of the features of self-interest maximization and the instrumental mode of economic behaviour. We have reached *negative* conclusions on some of the basic assumptions of economic theory. The question of appropriateness can however only be effectively answered, as mentioned previously, if we can avail of *alternative* rationalities in ordering interests. In previous chapters we observed that this is indeed the case: alternative rationalities to instrumental rationality do exist. Furthermore, the very fact of questioning appropriateness indicates that priority is no longer exclusively given to self-interest and instrumental rationality as such; in our study the starting point has instead been *the most valuable combination (superposition) and/or allocation of interests*. Economic agents who share such drive accept that attributing priority to utilization value may well conflict with the objective of smooth operations and processes ('smooth process management'). *Intricate* process management necessarily accompanies a departure from standard mechanisms adopted by the market and state system. On this subject we will focus in chapter 11.

Should one however prefer to give priority to the smooth processes developed by mainstream economics, then we should *accept compromising* the very nature of interests such that "values" as motivators of behaviour are instrumentalized (particularized). So in the end it is the choice of *stance* at the outset which determines the appropriate modus operandi and hence which interests' ordering devices should apply. Or, referring to the first chapter, to the answer to the question *Quae naturae sum?*, which determines the *naturae motus proprio* of interests.

Departures from the standard assumptions of economic behaviour are to be studied, especially in real life cases of mixed public and private interests which prevail in externality-situations; of values as motivation of economic action of 'civic' households; and of a context of chaos and utilization value. In chapter 9 we will proceed with such departures.

.....hence, the premisses of the interests-ordering devices of mainstream economics are also inappropriate in these 3 cases.....

.....which legitimizes a departure towards alternative devices whose premisses do match the nature of interests







## 9. DEPARTURES FROM THE STANDARD ORDERING OF INTERESTS BECAUSE OF MARKET AND STATE FAILURES

In the foregoing chapter we have concluded that the assumptions of mainstream economic theory are inadequate for a growing number of real life economic phenomena, including those of externalities and 'civic' households. If the standard description which economics offers does not match the every-day reality then the theory has to be adapted to this reality. This implies a departure from standard assumptions. Unfortunately, in the treatment of these phenomena the tendency has so far been the reverse. The common yardstick was the adaptation of sound perceptions in order to match traditionally held assumptions and beliefs. By *distorting* the sound perception of reality, mainstream economics found *relief* from not having to question the appropriateness of the assumptions it has cherished over the last two centuries. We will not follow that route and stick to reality instead.

Our approach in this chapter will be first to compare the *modi operandi* of market and state; then to identify the deficiencies of missing and failing markets. Secondly, we will distinguish externalities from economic action of the 'civic' kind - externalities are defined merely from a consequential stance, 'civic' households from a motivational stance. We will then analyse why other vehicles other than market and state are required for allocating mixed interests: the latter have different essentials and hence require different *modi operandi*. The functional argument for replacing market or state with alternative devices is the primacy of the nature of interests over the nature of the processing mechanism (: market or state): *only good ordering enables the actualization of the latent potential of the interests' superposition*. Maximum latitude for such action is obtained not by the standard devices of market or state but through platforms of multi-rationality. Finally, some global observations will be voiced as to the 'civic' devices for solving the problems of missing and failing markets.

*A sound perception of reality has been compromised to achieve a fit with the assumptions of mainstream economics*

*The nature of the interest determines the applicability of either market or state or any other interests' ordering device*

.....and hence we compare the *modi operandi* of market and state with respect to 6 main attributes

We will start with comparing the *modus operandi* of market and state, and thereafter return to chapter 3. There we saw that the means for sustaining a household could be available independently of other households. However, if *better* means could be available through cooperation of households, then exchange would occur, i.e. *cooperation materializes* through exchange. The exchange cycle can be either goods (for money) for goods - a 'market place' -, or money (taxes) for public goods - 'state'. Depending on the nature of the goods either cycle is adopted.

Comparing these exchange cycles one can identify some rough but essential similarities and dissimilarities in the *modi operandi* of market and state;

i. Use of will

i. *The use of will is dissimilar.* In state the common will is visible since it is achieved along the political route, be it democratic or mono party. On the other hand, the market is considered neutral. No will here applies as the invisible hand is the ordering device.

ii. Commensurability

ii. *Commensurability* applies in both, albeit differently. Commensurability in state exists in principle because of the equality and justice which need be secured for each citizen: condition in the pursuit of objectives which are part of the politically-determined 'general' interest which should equally govern all citizens. Regulation and norms are therefore applied which in principle are not susceptible to individual preferences or unexpected contingencies in order to protect this very equality-criterion in the state's functioning. Careful assessment in using conferred responsibilities and rights aimed at safeguarding the rules of proper governance (*no "abus de pouvoir"*) is prime in the conduct of state authorities. From political policy statements follow the planning of the general interest through the *hierarchic* ordering by state *bureaucracies*, implementing policy through regulation and norms. This is the *functional* argument of commensurability. Commensurability is further reinforced by *the inability of majority decisions to take into account the intensity of individual preferences.*

Commensurability in the *market* system is the result of monetary value. A market requires not only that goods are physically available at a certain point in time and space (*location*), but also that they are *tangible* for *property rights* to be market conveyable and that "*good*" *money* exists (inflation-free), convertible in any market, so that there is no trap in the goods-money-goods exchange cycle. The conditions for monetary themselves constitute the operational reason for commensurability.

Immense *differences* exist vis-a-vis the *correctibility* of commensurability in both systems. In the state the ex hypothesis political objectives can be adapted if and when the general interest requires a change: this is the origin of the *political debate* in a democracy. This may result in a correction but again according to an equally regulated and in principle non-contingent treatment of the general interest. This is not the case with markets. The correction of imperfect markets is only possible to a very *limited* degree and requires recourse to state planning. Strict adherence to monetary exchange value and trust in the invisible hand instead of a shift towards utilization value will prove ineffective since the price system is too simple for the complexities of the problems (externalities) at hand, as explained in chapters 5 and 7.

iii. *Particularity* is similarly conditioned by market and state to their respective fields of interest. It produces the striking *dichotomy* of markets dealing with the private and state with the general interest.

iii. *Particularity*

Particularity in *markets* follows from the exchange requirements of quantity, volume and price. Particularity of private interests is further reinforced by the requirement of market conveyability: a legally delineated nature should apply so that they are indeed tangible for property rights and hence market conveyable. Where particularity amongst private interests declines and communality increases, the market place as such is no longer appropriate.

Particularity of the general interest of the *state* follows from the operational requirement of instructing and operating a fragmented state bureaucracy and from the

voting system of democracies. The democratic decision-making process in which voters are only represented and not personalistically participating in the general interest requires sharply delineated (particular) actions which can be clearly communicated. Through such particularity the general interest can be communicated and decided upon: the voting system cannot deal with non-delineated stakes.

iv. Means

iv. *The means* are dissimilar.

They are dissimilar. The *market's* investment decisions are based on sound product-market combinations that require capital, labour, and information as main input under the maxims of time and location.

The *state*, on the other hand, disposes of totally different means. It mainly avails of rights to do or forbid something eventually with strong monetary implications, or rights to spend acquired taxes. However, public goals are not derived from an investment or product-market calculus (input-output) but on the basis of ex-hypothesis goals which are politically formulated as the general interest.

v. Interdependences

v. *Interdependences* among differently natured interests are being treated *dissimilarly*. The *state* does avail of a personalistic instance which the classic market misses out: representation enables *political debate* in which social interdependences and/or non market interests such as values can be discussed. The classic *market* functions amorally, not immorally, through the *price-quantity or investment calculus*. Interdependences here have to fit through the price-quantity, demand-supply categories, or are not materialized through the market at all. Therefore non-market interdependences, such as values, complex problems and externalities cannot adequately be dealt with by market allocation.

vi. Goals

vi. *The goals* to be ordered are *dissimilar*, and hence also the manner in which they are ordered. Whereas the *state* focuses on goals of a general interest both of a quantitative and qualitative (social) nature (and on correction of inefficient market allocation), the market aims at quantifiable goals mostly. And whereas in the

state a platform of public and personalistic debate is the medium through which decisions are taken, the market requires a non-personalistic medium (invisible hand) for optimal allocation, under the condition that price and volume are explicitly and transparently communicated.

Having compared the *modi operandi* of market and state with respect to 6 different attributes, we may now focus on their deficiencies. Thanks to their diversity, interests are to be ordered by the market or state vehicle, according to the nature of the interests at stake. But what happens when the above operational conditions or premisses to the functioning of market and state vehicles are *not in line with the essentials of the interests* at stake ? A pragmatic answer would be to nevertheless apply the existing mechanism until such time as better alternatives of ordering interests are available: the subject of the next chapter. For the moment we concentrate on the other relevant question: *when and why are market and state mechanisms appropriate ?*

The market is utilized as the *basic coordinating* medium for ordering the *diverse spectre* of individual households' actions. This system is able to order through the common denominator of monetary value. The potential monetary value is determined through the confrontation of the quantity supplied and demanded, under conditions of transparency and transaction costs. The elements of the system's input (production factors) are conditioned insofar as they have to be *homogeneous* and themselves easily susceptible to quantification and hence be priced in accordance with their *distinct* nature: capital, goods and labour. Depending on the direction of ordering chosen by the economic agent, be it self-interest maximization or non-profit, a certain amount of brain-intensive information is added so that the inputs can be combined. We have seen how inference rules can be applied in such processes of combining interests. However, complications arise in market coordination or in the effective functioning of the market, in the following cases:

1. *Non-particular* interests which are less or even *non-susceptible to quantity and/or price mechanism* because

*When and why are market and state inadequate ?*

*The market coordinates distinct and homogeneous interests effectively.....*

*.....but cannot cope with the functional complications which arise in the cases of:*

1. *Non-particular* interests

they are non tangible for property rights (non-excludability). They can hardly be internalized in the price system. This is usually the case with complex problems, and phenomena such as clean air, aesthetically pleasing buildings etc.

2. Uncertainty

2. *Uncertainty* (risk) through *unplannable interdependencies* and/or diminished transparency, e.g. stock market.

3. Intrinsic interests

3. *Intrinsic* interests which *cannot be the object of exchange*, as they are intrinsic to an activity itself (see chapter 6) and cannot separated from the activity itself, let alone be conveyed to a different location, time and market place. Examples include charitable work such as Greenpeace, the World Fund for Nature, etc. These are all non-tradeable interests.

4. Heterogeneous interests

4. More *heterogeneous* inputs which *cannot be individually priced*, e.g. information, political support (we do not discuss bribe), and the monetary effects of public laws.

5. Barriers to linkages of non-market and market interests

5. *Barriers to linkages* of non-market (e.g. voluntary action, social return) and market interests, to link social with commercial returns.

6. Any combinations of the above

6. *Complexities* caused by *combinations* of the above:

The traditionally known 8 market inefficiencies then arise

The above complications in the efficient functioning of the market as the coordinating mechanism result in what is known as '*failing* markets' or '*missing* markets' <sup>77</sup>. Their existence testifies to the inefficiencies of the market system which are traditionally <sup>78</sup> grouped as follows:

1. High transaction costs
2. Lack of information
3. Monopolistic tendencies

---

<sup>77</sup> Pennant-Rea & Crook, THE ECONOMIST ECONOMICS, 1985, page 156.

<sup>78</sup> Buchanan A., Op. Cit., page19.

4. Externalities

5. Failure to provide goods which *integrate or mix* interests of a diverse nature
6. Failure to provide societal returns and/or public goods through the *gap* between social and economic return.

7. Lack of quality

8. Failure to apply cost-benefit analysis

Traditionally, the grouping of market inefficiencies rests on a different basis from the above-mentioned complications in the functioning of the market device. We do not follow the usual approach of 'logistics' or engineering economics and our stance is the *modus operandi*. Due to this stance we limit our objects of study to the economic phenomena of externalities, 'civic' households and the ordering of interests in conditions of chaos, in pursuit of utilization value - categories 4,5,6, 7. It is in these categories that the good ordering of interests is failing or missing.

A '*failing*' market (categories 5, 6, 7) can in fact be distinguished from a '*missing*' market (categories 4, 7). The distinction is important insofar as each suggests a different direction in identifying solutions to the problems they give rise to. Whereas externalities indicate *deficiencies* in an existent structuring device of the market - an ineffective invisible hand - and hence are an example of *failing* markets, the *lack* of mixed interests goods and non-provision of certain societal goods reveal *missing* markets. To illustrate how the distinction leads to different solutions we focus on externalities.

*Missing markets  
can be  
distinguished  
from failing  
markets*

One could say that in the case of externalities the concept of a missing market also applies, thereby indicating a possible solution to externalities themselves. A market to internalize externalities is missing; a market through which the externalities can be made to impinge on the decision of how much to consume or to produce. Pollution, for example, can hence be considered both as a



result of a failing market and the missing market of buying and selling pollution permits. This latter solution would result in the creation of a *new* market instead of improving on an existent one. The issue here is that both market concepts do apply but with a different approach, a different *modus operandi* and a different outcome altogether. A clear example of market *failure* is the destruction of rain-forests on economic grounds; an example of a *missing* market is game farming in Africa. Whereas both constitute a challenge, the failing market is considered as a *problem*, the missing market an *opportunity*.

Externalities and  
'civic'  
organizations

Before continuing we will elaborate on an analysis of externalities and 'civic' households. Some 'civic' households focus on solving externalities, whereas others have *no* relationship with externalities since they spring from value-based behaviour. Hence we divide 'civic' households into 2 classes: the first focusing on externalities, the second on the mix of specific and general interests or non market interdependences between the interests of diverse households. Both classes of 'civic' households testify of the following:

(1) The *non-exclusivity* of the private sector in pursuing specific interests and the public sector in pursuing general interests.

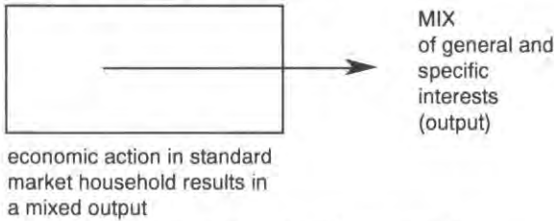
(2) The *inadequacy* of the private / public duopoly in society, and the emergence instead of a *continuum* of interests' ordering devices. The continuum features a different *modus operandi* which offers solutions that cannot be offered by the functioning of either of the other 2 sectors.

Generally,  
externalities are  
output-related  
(consequential)  
and 'civic'  
organizations are  
input-related  
(motivational)

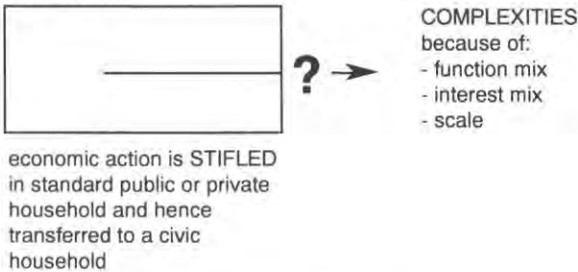
Externalities occur in the *output* of a system as a mix of general and specific interests whereas 'civic' households have a moral dimension in the motivation of economic behaviour at the input-side of a system. They are directed towards pursuing the general interest or towards coping with activities that are of too complex a nature and which therefore hampers economic action in one of the traditional 2 systems. These characteristics are summarized in the following drawing:



Externalities, e.g. industrial pollution:



Civic Households I, e.g. PPP's, Schiphol Airport  
Distribution Zone:



Civic Households II, e.g. voluntary organizations:

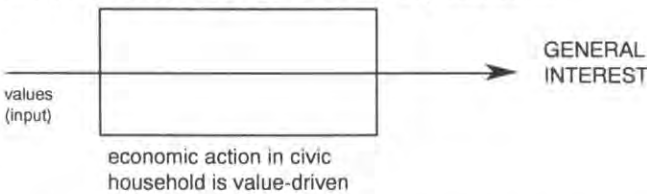


fig. 1 observation of 3 economic phenomena which do not match the logic of market and state

'Civic' households can best be defined from a *motivational* stance: one could discriminate civic households by focusing on the *causa efficiens* and the *causa finalis* which often *coincide*, as the cause and end are intrinsically related in 'civic' households (see chapter 6). Externalities on the other hand are best defined from a *consequential* stance. Here the *causa efficiens* is different from the *causa finalis*: cause and end do not coincide. Rather, the consequences of the act are unintended, although the external effects, be they negative or positive, are indeed being conferred. Hence their nickname

"spillover effects" or "third party effects". They arise whenever the value of a production or consumption function depends directly upon the unintended or incidental by-products of some activity of others <sup>79</sup>.

4 definitions of externalities:

1. Pigou's definition

2. Lin's definition

3. Heller and Starret's definition

4. Our definition: Externalities occur whenever the premisses of the ordering device of market and state are incompatible with the essentialia of the interests to be ordered

Such consequential definition of externalities serves to distinguish them from 'civic' initiatives. For a better insight on what externalities are and how they are best conceived of should the stance be one of 'modus operandi in reality', we will compare the consequential with rival definitions <sup>80</sup>. "Third party effects" generally arise when there is an *interference* in the production or consumption functions by the activity of *others*. They cause the *divergence* between *private net product* and *social net product*, as Pigou indicated in his 'Economics of Welfare'. A traditional definition of externalities is that they occur whenever a decision variable of one economic agent enters into the utility function of some other agent. A rival definition which will better suit our focus on the coherent superpositions of interests is the one of Heller and Starret; they occur whenever the private economy *does not offer sufficient incentives to create a potential market*. Roughly spoken, externalities are here nearly synonymous with the non existence of markets (missing markets). This really *incites the blending of diverse interests* into a coherent superposition such that the added value partnership can indeed stir, support or sustain the creation of the potential future market, such as the buying and selling of pollution permits.

Such stance opens the way for our definition of externalities: they occur *whenever the premisses of the ordering device of market competition or state hierarchy are incompatible with the essentialia of the interests to be ordered*. This definition incorporates the non-existence of markets which is a feature of externalities, drops the 'utility' notion of mainstream economics, and *opens* the economic debate for *alternative interest ordering devices* besides market and /or state.

---

<sup>79</sup> See Lin A.Y., Op Cit.

<sup>80</sup> The Post-war literature on externalities: An Interpretative Essay, JOURNAL OF ECONOMIC LITERATURE, March 1971

Such debate will prove far more effective precisely for those situations in which a decision based on tangible (for property rights) and monetary returns, a characteristic of the market device, is *not sufficient* for solving the problem at hand. Or alternatively, in situations where political tactics and majority-voting impede the taking into account of the intensities of the intensities of certain preferences and/or cannot cater for the contingencies of the problem at stake. In such cases, market and state might prove less effective vehicles to order interests than 'civic' households.

Ordering devices should first of all be compatible to the interests themselves, and *not the reverse*. An important feature of our approach is that the process-side variables are degraded to second place, leaving interests and their essential characteristics in the first place. By this most essential shift we could transform what is seen as a 'problem' from the stance of standard ordering devices, into an 'opportunity' as seen from an imagineering stance that does incorporate alternative devices. Standard processes need not necessarily be used and will be adapted to the essentialia of the interests at hand to create new constellations and coherent superpositions of interests. Thereby our approach will focus and safeguard what is essential and intrinsic to added value.

This implies that adding a non-existent but complementary market to a failing market does *not* automatically lead to a rationality similar to one currently being practised. For example, to solve externalities, which essentially are a mix of specific and more general interests, the future complementary market might function with 'state' or local authorities as *market-party* on at an equal level. Whereas in all other markets the state remains involved in its traditional role of a *non-market party overlooking* all market parties with the right of introducing taxes and benefits. We acknowledge that this economic solution offers abundant food for lawyers as it proclaims a double-role of state authorities. The state would act to modify the invisible hand on one market, whilst acting as a market party and accepting the invisible hand with its outcome and risks on another, but complementary market. Such is the opening we are after.

*Interests' essentialia should have priority over the premisses of the ordering process.....*

*.....to facilitate the transformation of problems into opportunities.....*

*In this way, differently functioning markets can be complementarily superposed.....*

*.....on condition that a different role is played both by state.....*

.....and by private parties

The reverse holds for private parties. In one market, a private party operates in competition like any other market actor. But in a complementary market the same actor will partake in a conglomerate together with state authorities and other parties that initiate the solution to an externality problem. *Pooling forces* with the state might enable these parties to *rightfully obtain* a competitive position that enables them to raise entry-barriers against the potentially free-riding competitors. Such competitive position is then capitalized upon by all non-free riding and committed parties.

Platforms of multi-rationality emerge as a result. Their function is to create maximum latitude to actualize the potential of interests' superpositions

The main reason for searching these openings is that they create *platforms of multi-rationality* which transcend market and state forces in such a way that potential coherent superpositions of interests, which are of a diverse nature but potentially mutually reinforcing, do get the chance to be realized. The Aristotelian argument of potency (*dunamis*) and act (*energeia*) here comes to mind. The *potency* of the superposition of essential added values requires the *act of good ordering* for their potential to be actualized. In our present economic reality we often lack the appropriate device to order our interests such that their potency is usefully realized since we give priority to the smoothness of existing devices. Such potential is then hindered by 'structural smoothness'; it can be released by alternative 'platforms of rationality'.

The starting point of these platforms of multi-rationality is a stakeholders' analysis to determine the potential of pooling interests

When we start with an analysis of the interests' essentialia, the process criteria emerge. They in turn determine which characteristics of the ordering device are most appropriate - *adequacy of means to goals*. If the characteristics which stem from the existing structures of the market and state are less than appropriate, then alternative devices with better fitted characteristics should be employed for ordering interests. The act of ordering only then becomes an act of '*good ordering*'. The analysis of interests' essentialia is executed in what we call 'stakeholders analysis'. Thereby, the problem at hand or project concept - the potency - *per se* is the starting point, followed by a selection of parties and ordering devices, be it market, state or 'civic'. Often, however, market and state automatically order parties - invisible hand - and impose their structural conditions,

instead of a selection of the parties exhibiting most 'problem-solving capacity'. In the former case, actors are selected because of their *location in a market configuration*, in the latter through an *analysis of potency*. The market is in complex situations usually not able to operate intelligently on the basis of such potency analysis and functions blindly instead. Therefore the *primacy of the nature of interests over the nature of the ordering device* particularly holds in externality-situations and in value-based economic behaviour.

Alternative ordering devices are therefore required to facilitate the interaction of interests across market or state boundaries so that different means can be linked a meaningful way, however diverse their nature. Setting our priorities right results *not in a smooth*, but rather intricate process of organizing interests. Not according to structural market laws but by contingent laws originating from the potency of the project concept and/or the coherent superposition of interests.

With externalities however the usual focus is on *property rights*. Their enforcement would eventually enable any market whatsoever to function and solutions to externalities to be found. Alternatively, resources such as the public sector's laws to forbid, rights to subsidize and other endowed powers that have a substantial monetary effect, be they direct or indirect, as well as the values and ethics of customers are often not pooled into a common goal together with private parties interested in solving externalities. Structural barriers have long prevented such pooling. Nevertheless, the potential of the latter approach remains whereby resources are pooled into a common good, especially in the case of externalities in urban development: the platforms offer the multi-rationality which enables the pooling of differently natured public and private resources. We will have to accept that the process of interest networking and resource pooling is intricate. This may result in parties *shying away* from this approach and taking recourse to the traditional vehicles of ordering interests through market and state. Again it appears how crucial for our purpose the quest for utilization value is in making a crisp analysis of the exact nature of *'what is at stake'*

*The process of pooling interests is intricate, not smooth.....*

*.....and requires astute interface management*

*A definition of 'civic' organizations from a motivational stance*

(stakeholder analysis, see next chapter); of adequate *management of different actors and different modus operandi* (interface management, see next chapter); and to capsulize the above in a *sound process* - as a foot fits the sandal.

After the overview on externalities as seen from a consequential stance, we will now focus on 'civic' organizations from a motivational stance. Here again we observe the ordering mechanisms being different from market and state. Although some 'civic' households originate from externalities which hinder the general interest, others are driven by values. Motivations for civic initiatives include:

1. To benefit from positive externalities due to the synergy of combining mutually reinforcing interests.
2. To create a network of diverse interests so as to catalyze potential coherent superpositions (networking).
3. To tackle negative externalities that affect the general interest.
4. To create a potentially valuable but missing market of general and/or mixed public private interest (missing because too expensive, or non-excludable, or failing cost-benefit principle, or free-rider problem).
5. To realize a non-market motivation or to actualize<sup>81</sup> intrinsic interests which cannot be the object of exchange (ethically motivated economy).
6. To tackle the barriers imposed by economic or political interests which impede the solution of societal problems and/or improvements in the quality of life; or to overcome a conflict of self-interest and general well-being as a kind of countervailing power (see J.K. Galbraith).

---

<sup>81</sup> 'To actualize' is different in that it focuses on presence in reality and existing as a fact, whereas 'to realize' focuses on the conversion into fact (see the Concise Oxford Dictionary). Therefore, we use to actualize for intrinsic goods and to realize for external goods.

Typically 'civic' households, such as Amsterdam-Schoon, Triodosbank etc, are initiated because the state as the alternative provider of public goods or eliminator of externalities, is unable to avail of the enthusiasm, vision or imagination required to spur the innovative solutions which 'civic' households can offer.

*The state lacks the enthusiasm and imagination of 'civic' organizations.....*

Coherent superpositions of diverse but mutually supportive interests *need the input by such faculties to effectively transcend barriers* caused by mainstream economic action, with their focus on integration of forces instead of particular self-interest maximizing behaviour.

The market's inability to solve its failures or provide missing markets (or networks) could in itself serve as sufficient reason to *abandon* altogether the traditional market (with/without government intervention) and state functioning. However, this is a serious and pervasive departure: careful consideration and sound reasoning prior to deciding to abandon traditional devices is needed. The assessment of whether to abandon or not existing market and/or state devices is *not* to be made according to the *bench-mark of a closer approximation to the efficiency of the ideal market*, as A. Buchanan proposes <sup>82</sup>, because this move would imply accepting a similar *modus operandi* and *maintaining* a uniquely instrumental rationality.

*.....but to abandon the modus operandi of state and market is a serious and all-pervasive departure which needs careful consideration*

Therefore we will base *our assessment* solely on the essentialia of the interests to be ordered as revealed by a stakeholders' analysis and compare these with:

"...what the system does and not how it does it..." <sup>83</sup>

The inter-systemic efficiency <sup>84</sup> comparisons will thus be made with the sole criterion of what constellations are most effective against the background of utilization value. Hence the interest organizing devices are, as

---

<sup>82</sup> Buchanan A., Op. Cit., page 26.

<sup>83</sup> Sommerhoff G., Op. Cit., page 152.

<sup>84</sup> Buchanan A., Op. Cit.



Marshall <sup>85</sup> suggests: "...measured indirectly by the outward phenomena to which they give rise..."

*The traditional approach proposes 8 different state interventions to counteract externalities.....*

To allow for a sound evaluation we also mention alternatives to market departures: the usual government interventions in a market system. Their objective usually is to tackle the externalities and overcome the barriers to supply public goods. State intervention can be of various kinds:

1. Attempt to persuade parties which produce negative externalities
2. Prohibit the externality producing behaviour
3. Tax the producer of negative externalities
4. Enforce standards to be met (regulation)
5. Enforce a legal compensation system for producers to compensate the affected
6. Enforce voluntary agreements among stakeholders
7. May internalize externalities or privatize public goods in market-conveyable goods through creating differently structured property rights.
8. Overcome the externality by providing it itself outside the market system.

*.....which however all accept and maintain the traditional dichotomy of market and state*

We observe that the above interventions still are all based on the *preservation of the dichotomy* between market and state: maintaining a similar *modus operandi*. The state intervention is like a *deus ex machina* introduced on the market scene, starring in its role as "l'Etat Providence". It organizes interests through its wisdom of what is good for all. But any government intervention itself produces externalities (or limiting government intervention may itself be a public good), and therefore it may well be that l'Etat Providence as *deus ex machina* turns out to be a *Trojan Horse* in the market place.

---

<sup>85</sup> Marshall A., Op. Cit.



Could a different government action be thought of which evade such unpleasant surprises ? Yes, by assuming that the *dichotomy of market / state* and the *corresponding modi operandi* are at the heart of the problem and a major cause of externalities. Secondly, by the premiss that the integration of diverse interests in conjunction with the synergy which accrues to contributors - at the exclusion of free-riders through the creation of entry barriers or new property rights - will generate an attractive critical mass of return and investment for the parties concerned.

*Instead we take a different stance by looking at market and state as two points on a continuum of interests' ordering devices, not merely a dichotomy.....*

Prior to explaining our position we specify the 2 premisses underlying it. In the case of externalities the free rider problem and assurance problem are major hindrances to the achievement of a solution. Competition itself is known to be at the origin of the problem. Competition is the dominant barrier to collective action. Why not leave market competition altogether and focus on how to stimulate network cooperation ? The assurance problem may be overcome *after* other stakeholders have been *identified and introduced* in a network or platform which they perceive of sufficient critical mass to carry potentially coherent superpositions of interests. Through exclusion, the free-rider as non-initiator and/or non-contributor will simply not be able to partake in a 'market' so that competition is no longer a factor. On the other hand, those who *do risk* the assurance-gap, *will be remunerated* for doing so by offering the opportunity to exclusively partake in the generated synergy and the extra added value, as for example quality improvement, which then cashes out.

A novel role of government therefore emerges:

The state creates new ordering devices by setting up or catalysing platforms which can lead to a more effective allocation of interests. Such networks facilitate the interaction of interests and result in new constellations of state and private sector organisations such as public private partnerships. These have the potential, through an enhanced propinquity and rate of alertness, to generate results which cannot be achieved otherwise.

*.....where platforms for the superposition of interests are created to open up ineffective market and state devices*

The state can therefore act to transform a non-personalistic mass-market into a personalistic market with a social fabric.....

.....since personalistic experience is superior to formalization because of its faculties of permissiveness and latitude in choosing inference rules

The government's task here is to *transform* the market or state mechanism of *mass society* where interests non personalistically interact into platforms with a certain social fabric which resemble a *personalistic* market. A personalistic market through its social fabric can overcome the assurance problem more effectively than non-personalistic measures taken by the state in a mass market. Furthermore, a personalistic market can avail of imagination and enthusiasm, important faculties to overcome market failures and/or missing markets. This is the added value to be contributed by *transforming* mass markets with stakeholders conceived as '*they*' in a mass market with the '*we*' of a personalistic market <sup>86</sup>.

The development of such devices for facilitating interaction among successful entrepreneurs, administrators and public decision makers is the materialization of what has been called in sections 5,6,7 the *superiority* of personalistic experience over formalization (or planning) because of its permissiveness. These added value partnerships (VAPs) between public and private organizations are usually called public-private-partnerships. They *themselves* are a mix of public and private interests, of general and specific interests, so what is more logic than to materialize the reciprocity in an organization form, too ?

All of the following four traits typify PPP's: they are collective, decentralized, bargaining processes which result in a modified invisible hand. As they *neither operate within the boundaries* of state *nor* market forces, and as they are characterized by their peculiar type of functioning (see chapter 12), they are indeed on the frontier of '*civic*' households and traditional government interventions. Often they require a *combination* of several of the above mentioned government interventions (especially 7 and 8) simultaneously on different markets. They can also be considered a *combination* of the two traditionally proposed approaches towards the externality problem, which are as follows:

---

<sup>86</sup> See A. Etzioni, Op. Cit., page 138.

1. Pigou: *collective* approach resulting in a *modified invisible hand* through taxes and benefits.

2. Buchanan & Coase: *decentralized* approach leading to *private bargaining*.

Their materialization in one public-private-partnership is as follows: the affected local public authority creates a network where cooperation is pursued to which other relevant stakeholders are invited so that bargaining on the desired problem solution can start.

Interested parties can be mobilized into a PPP platform as soon as:

- the intention to enforce property rights is formulated and specific units are held accountable; with entry-barriers being generated by the initiators as a result of their synergy ;
- public financial contributions are made to the jointly developed and unifying conception that integrates the diverse interests of stakeholders.

The *unifying conception* generated by the PPP-platform is translated into practice by the coherent superpositions of interests. It is a result of the process of idea development that starts once the platform is operational and which functions according to a *cyclic networking* of the *know why* of decision-takers and the *know how* of knowledge-workers. It is crucial here to mention that the unifying conception does *not* offer a solution *ex hypothesis* on the basis of a priori priorities - not preconceived by either one of the stakeholders - or *ante rem* ,but *ad experientiam*.

The old adagium of H.A. Simon applies in such approach: effective government intervention through *procedural* rationality in decision making, not *substantial* rationality. *Procedural* rationality in decision making applies in the optimalization of problem-solving processes, and *substantial* rationality in the engineering of a decision's actual content. The difference in rationality follows from the organization of different processes in which inherently different human faculties apply. As we have extensively studied in chapters 5, 6

*Public-private-partnerships combine Pigou's and Buchanan & Coase's approach*

*The unifying conception of various participants translates into practice the coherence of their interests' superposition .....*

*.....which emerges from a cyclic networking of know-how and know-why*

*Procedural' rationality focuses on creating the capacity for problem-solving, whereas 'substantial' rationality focuses on defining the solution itself*

and 7, this will lead to different sets of rules of inference. On the premiss that public attention is limited because of scarce resources, one can conclude that a procedural approach allows only the state to identify the parties carrying a problem-solving capacity and *group* them in the platform so as to *create a 'capacity'* for problem solution. Creating a potency for problem solving is different from producing a problem-solution. In the latter case, the role of the state is to act as a problem-solver instead of a catalyst.

*Justifications for the 'civic' approach are twofold:*

*1. The state's incapacity to plan, which requires procedural rationality*

*2. Ethical and effectiveness considerations, which require joint idea development*

On the other hand, the 'civic' approach by the state and private parties, is not only triggered by the misfit of standard state devices for ordering complex and mixed interests, but it is also a *worthwhile cause per se*. This conclusion follows from a discourse on political philosophy which is outside the scope of the present study. The traditional arguments for misfit and cause per se are twofold:

Firstly, we may criticize substantial rationality and favour procedural rationality because of the state's *incapacity* (mismatch) to plan *correctly* and/or to plan *rightly*:

1. Limits to the plannable <sup>87</sup>
2. Who plans the planners <sup>88</sup>

Secondly, there are ethical and effectiveness arguments for a personalistic market approach or the approach of collective bargaining in public-private partnerships and other such platforms. Mainly this is because PPPs allow for the processes of *joint idea development* which embody *advocacy planning amongst the relevant stakeholders*. According to King the following arguments apply to such personalistic approach:

1. It provides for *immediate feedback* as to the progress towards the goal

<sup>87</sup> Chadwick G.F., THE LIMITS OF THE PLANNABLE; STABILITY AND COMPLEXITY IN PLANNING AND PLANNED SYSTEMS, 1977.

<sup>88</sup> Mannheim K., (see J. Lambooy, De Stad, Op. Cit., page 82).

*Chapter 9 Departures from the standard ordering of interests because of market and state failures*

---

2. *Individual values* become more important, and more likely to be similar to group values
3. It relies on the capacity of *man to shape his own destiny*
4. It is *easily accessible* to members of the community
5. It may provide a *resurgence* of local interest in other areas <sup>89</sup>.

Whereas the first two arguments explain the misfit and hence the departure from the standard state devices of ordering interests, the latter five reasons show why the 'civic' process per se is a worthwhile cause on politico-philosophical grounds.

Having identified some complications of the functioning of the market mechanism and resulting state interventions, and having suggested some departures from the standard devices of state and market, such as 'civic' households and the integration of public and private forces in PPPs, we may summarize our findings on ordering interests. Interests are part of a continuum with a third domain, 'civic' economy, functioning not strictly as market or state, and therefore offering other devices for the ordering of interests. Such variety was sought for from the start of our study in chapter 2 where we have concluded that "*...the device remains appropriate as long as its premisses match the premisses of the nature of the interests to be matched...*". New interest configurations then become feasible. This especially holds for *complex* problems of a *mixed nature* (see chapters 8 and 9). Such enhanced variety of structuring devices, each with its own *modus operandi* and rationality (see chapters 5 and 6), allows for a better match of interests and ordering devices. Through a better match, through appropriate rationality (see chapter 7), problems resulting from missing and failing markets can be solved and 'civic' motives stimulated. Both will result in an increase of good interest configurations. Economy

*Through the quest for good interests configurations future economies can grow*

---

<sup>89</sup> King N., PLANNING THEORY: AN EXAMINATION OF THE LINKAGES BETWEEN IMPLEMENTATION, KNOWLEDGE AND ACTION, UCLA, Los Angeles, 1974.

as the quest for good interest configurations will hence grow. And isn't the absence of negative externalities (negative experience of 'they'), the presence of positive externalities and the actualization of 'civic' motives (the human experience of 'we') a yardstick for measuring wealth, for judging the *good community*?

We will start with the practice of implementing such fresh approaches in chapter 11 with first an analysis of the *nature* of interests - *why* - and the *object or project* of interests - *what* - and then the *process* of ordering interests - *how*. However, before continuing with such conclusive analysis we should concentrate in the next chapter on the relation of property rights and decision accountability, essential to any study of interest allocation: it is the cornerstone in the implementation of the will as shown in chapter 3.



*Chapter 9 Departures from the standard ordering of  
interests because of market and state failures*

---



---

## **Part IV**

### **Beyond market and state**



## 10. PROPERTY RIGHTS & DECISION-ACCOUNTABILITY

In this chapter we will focus on the function of property rights in an economy which is oriented towards a full utilization of potential driving forces. Such an economy needs different strata for the encounter of various rationalities. Different types of rationalities can indeed interact in the above-mentioned platforms which function as a *personalistic* market. Thereby the market / state kind of rationality is no longer the sole kind relevant to society. And this was exactly the reason why we chose not to start our analysis from the traditional paradigm of self-interest maximization\* in a market structure.

Instead our analysis has been based on the paradigm of utilization value. We concluded that interests' ordering processes are here secondary to the essentialia of added values: ordering processes should neither hinder the utilization latitude of talents nor be adapted other than to match the added values themselves. The unhindered latitude of a household to utilize its unique constellation of talents and interests which makes up its individual strengths and weaknesses is necessary for the fullest development of the household's potential and of the individual's personality.

According to Hegel <sup>90</sup> such development is possible if the ability is maintained within each household to create and modify material things *according to the household's own aims*. Therefore others should recognize its property rights which function in this case to protect liberty of choice. By enforcing the utilization latitude of talents at the level of the individual the proximity of interests is maximized and hence the rate of alertness of a specific household. In chapter 7 we learned that the *utilization chance of the individual's potential is then at its greatest*. Or, in other words, the potential for coherent superpositions of added values is thereby maximized: its

*In the quest for utilization value property rights have a different function than in the quest for self-interest maximization.....*

*.....therefore we investigate some functions of property rights:*

*with Hegel property rights function to protect liberty of choice*

---

90 Hegel G.F., LECTURES ON THE PHILOSOPHY OF WORLD HISTORY, Cambridge, 1975.  
A. Buchanan, Op. Cit., page 81.

potential utilization value. Property rights here protect utilization latitude <sup>91</sup>.

Alternatively, a function of property rights is to facilitate the *market conveyability* of goods. By delineating and defining a good with property rights, the good becomes a unit that can be exchanged on the market place for a price to be determined by market forces: "contracting" of goods is possible. Through property rights an interest can become an external good tradable on a market <sup>92</sup>.

*with Cheung  
property rights  
function to  
facilitate market  
conveyability.  
However, they  
could become  
dysfunctional in  
the case of  
intrinsic interests*

Cheung indicated that externalities are merely uncontracted effects <sup>93</sup>. His conclusion is therefore to internalize externalities through private market transactions in property rights. A counter argument from our stance is that applying property rights for the sake of market conveyability could result in delineating undelineable interests: this can be highly dysfunctional. What if property rights thereby affect the nature of the interests concerned? What if the interests are intrinsic and cannot be the subject of exchange?

*with Locke  
property rights  
start to function  
when and where  
man labours*

The Lockean version of property rights is that *they start to exist when man mixes his labour with natural objects*. Locke's initial acquisition and Hegel's initial liberty protecting functions of property rights hold in an universe of tangible objects of a delineated nature which have *no unplannable interdependences* with other interest units. However, if unplannable interdependences do apply, as for example in complex situations of externalities and of overlapping markets and technologies <sup>94</sup>, whereby the premiss of independent particularity of interests no longer holds, then transfer through the use of property rights becomes questionable. And it becomes *impossible* for formalized processes to effectively influence the possibilities of exchange, when interdependences are not foreseeable, or interests are intrinsic.

---

<sup>91</sup> Liberty of choice: moral argument.

<sup>92</sup> Tradeable on a market: efficiency argument.

<sup>93</sup> Cheung S.N.S., Op. Cit.

<sup>94</sup> Drucker P., THE ECONOMIST, October 21, 1989.

In the usually accepted Lockean viewpoint, the distribution of the results of interdependent and/or overlapping action is important. A pre-requisite for any successful exchange is an *appropriate distribution of a future added value* generated by several households. But the concrete future added value is often unknown, and hence its distribution too. Then it can only hypothetically be construed, and the exchange decision only be derived *ex hypothesis*. A contract with enough considerations could eventually approximate the ideal "just exchange" but the chances are rather high that no such approach will lead to a satisfactory deal.

Creating a moment of exchange of interests according to standard market procedures will *not be the best route to follow*: in complex situations: to take an allocation decision on the basis of tangible returns is not possible when unplannable interdependences prevail. We could even go as far as to conclude that in a complex context property rights *no longer can function* to protect the liberty of choice and that they hamper the ordering of interests because the market procedure oversimplifies the exchange too much for it to be accurate. A *complex context* will hence require both *liberty of choice* of the decision making unit - authority or accountability - and the *allocation* of property rights, or a combination of both, *to be adapted* in such manner that the resulting interests' ordering device is adequate. The greater such latitude, the greater the propinquity of interests and the rate of alertness. Therefore, the function of property rights should *enable the constitution of authority or accountability at the level of combining and selecting* interests. Property rights in the quest for utilization value function to *underscore the importance of accountability for good ordering*.

Utilization value is directed towards the good combination of interests, be they monolithic, or diverse and mutually reinforcing. In this case market exchange would be appropriate, in the second it would be inappropriate. In the latter case, market exchange and the resulting function of property rights should remain secondary to what is prime: the good combination of talents and the coherent superposition of interests. The

*In the case of complex interests property rights should first function to guarantee accountability for the 'good ordering', not to facilitate market exchange per se.....*

*.....property rights are thus secondary to the coherent superposition of interests*

temptation will nevertheless be great to *sacrifice the value of complex synthesis in favour of smooth market exchange processes, because of the too intricate management processes* of the more appropriate vehicles for ordering complex interests. Such processes can be facilitated through an industrious analysis of the stakes to be ordered.

*The appropriate type and allocation of property rights follow from the stakeholders' analysis*

Such stakeholders analysis focuses on both the object of interest (or 'project') - what ? - and the objective or aims of the action - why ? . From it we can conclude what type of property rights and what rationale for allocating property rights we should apply. Only after these have been identified should we approach the process - how ? - and the resulting vehicle of ordering: either market, state, public-private-partnership, or any other 'civic' household. Such elaborate management of interfaces of diverse stakeholders is a *prerequisite* for any quest towards utilization value and for coherent interest superpositions. If the analysis indicates an instrumental ordering of market-conveyable interests adequate, then the market mechanism should be applied. If interests are non-market conveyable then an alternative vehicle should be adopted on condition that the costs of such institutional innovation outweigh the costs of traditional property rights and/or the disadvantages of market allocation.

*Transfer of accountability backed by property rights ensures the latitude for utilization value*

Essential in conceiving of an alternative vehicle to which accountability for ordering is to be allocated, is the decision of how best to allocate interests in a specific constellation, and to *respect* the interests' essentialia and their requirements. The decision making unit made accountable for the good ordering could propose an alternative allocation through the assignment of property rights *differently* and an adaptation of the exchange process, or even the complete *abolition* of the exchange altogether. The accountability for achieving the good order of interests will have to be transferred to the new ordering device in conjunction with property rights related to a problem solution: only that will guarantee the protection of utilization latitude. Again, what is of first priority is not the smoothness of process - be it

market or state - but *the process of complex synthesis of interests into a coherent superposition*; nothing else.

Therefore we will concentrate the overview of the next chapter first on the stakeholders analysis and second on alternative vehicles for ordering interests.





## 11. THE CHALLENGE OF ORDERING INTERESTS FOR UTILIZATION VALUE

Ordering interests for utilization value is a challenge. It is a challenge because major elements of the method of mainstream economics, as shown in chapter 4, no longer apply when the maxim of self-interest is replaced by utilization value. At first one might start doubting whether an alternative methodology could exist because of the 'feeling of being lost in a chaos of interests' and the complete openness vis-a-vis ordering devices which characterize utilization value. In fact, such openness is for several reasons immanent to the quest for utilization value.

Firstly, the classic notion of commensurable utility as the universal trait of economic action is no longer assumed a priori. Instead, the process of actualizing the latent added values which emerge from the ordering of interests is the core of any economic activity versed towards utilization value. Since no a priori priorities are then to be defined, no ex hypothesis commensurability can be imposed on the agents' economic activities apart from *communality*. Communality instead of utility as the overall trait follows directly from the assumption of overriding importance formulated as the first sentences of this book: the individual and the community make each other and require each other.

Secondly, there is no *one direction* of combining interests based on accumulation according to self-interest, because 'what is of interest' in the case of mixed interests cannot be particularly defined as in the case with self-interest in market competition. 'What is of interest' is a configuration of many interests and only emerges from the utilization value approach itself, each time fresh and unique.

The third and last diversion from the method of mainstream economics follows from the inter relatedness of interests. The set of rules of inference, or the rationality in the *modus operandi*, differs insofar as the law of the '*Excluded Middle*' and of '*distributivity*' do not apply in conjunction with the notion of utilization value. This is

*The method of utilization value differs in three aspects from the method of self-interest maximization:*

1. *Utility is replaced by communality*

2. *One consistent direction of combining interests does not apply single-handed*

3. *Some rules of inference also do not apply*

because utilization value denies complete particularity of *interests* and it accepts the positioning in time as a determinant of the common result of *economic action*.

Our 'method' has been distilled through 'induction-by-experiment' and requires the adoption of certain maxims

The three above-mentioned diversions from the method of mainstream economics would leave us in doubt as to whether utilization value has a methodological *raison d'être*. Would no method exist, then the notion of the 'civic' economy would *only* fulfil a *descriptive* function in *retrospect*; and utilization value would *not* be an *operational* notion. A result of this would be that intrinsic interests in non-market, non-state households would have to be conceptually corrupted as 'of self-interest'; and externalities and the like would remain dependent on state interventions in a market failing because of the 'free rider' and 'assurance' gaps. Therefore it is of some value indeed that from a 5 years real-life case experience *confined to one particular subject* of the 'civic' economy, *public-private-partnerships*, some ingredients can be distilled for a method of ordering interests for utilization value. The *method* is not '*neutral*', however popular such view might be among scientists. Acceptance of the maxims treated in the foregoing chapters 1, 5, 6 and 7 is a *conditio sine qua non* for success in applying the method which will now be explained below.

Stakeholders, project and process are at the core of ordering interests

The overview of a *method for ordering interests towards utilization value* as proposed in this chapter will focus on the following:

1. The *nature* and direction of interests (why)
2. The *project* or object of interests (what)
3. The *process* of organizing interests (how)

It is the simplicity of respectively a stakeholders' analysis, a clear-cut project definition and good process management which will prove *useful* in ordering the complexity of our analysis.

The stakeholders' analysis identifies interests.....

#### 1. STAKEHOLDERS' ANALYSIS: NATURE AND DIRECTION OF INTERESTS

We start with the first, the nature of interests and the intrinsic added values of stakeholders. The prime

question here is *what the interests are* and *what kind of added values stakeholders aim at* (: ambition level). The answer to this question allows us to choose what vehicle best processes these interests, this being the second issue of this chapter. As to what constitute driving forces a stakeholders' analysis can identify interests, as shown in figure 1.

INTERESTS	
• competences	• returns
• talents	• values
• resources	• objectives

fig.1 Stakeholders' Analysis: interests of individuals and households

We have seen in chapter 8 that mainstream economics has instead adopted the premiss of a twofold direction: either self-interest or general interest. Mixed interests are here dissected in these two components and thereby not appropriately treated according to their nature. In addition, the main preoccupation of mainstream economics is the direction of interests, with the 'for whom ?' question of distributing the outcome of economic action having priority over the 'what ?' question. In the quest for utilization value (not self-interest maximization) *optimizing households' added values and their outcome* has priority, and the direction of distribution follows. We have seen in chapter 7 that *such primacy results in a different modus operandi* as to how interests are ordered into a project (yes/no market; state; 'civic' economy). With mixed interests the driving forces of households are part of a continuum and can at least have a threefold, not a dichotomic twofold direction as is usually assumed in economic theory. Figure 2 illustrates the point.

*.....and their direction*

We have also seen in chapters 4, 6 and 8 that such interests can be conceived of as either tangible or intangible. We will specify below that we herein mean tangible for property rights, as shown by figure 3.

*Interests are tradable when tangible for property rights*

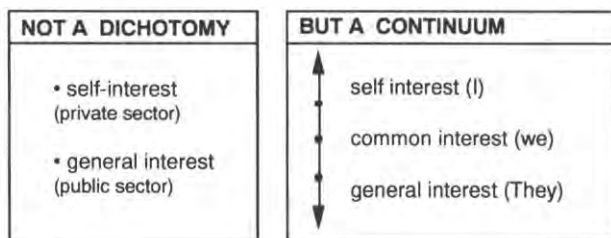


fig. 2 Direction of interests: for whom ?

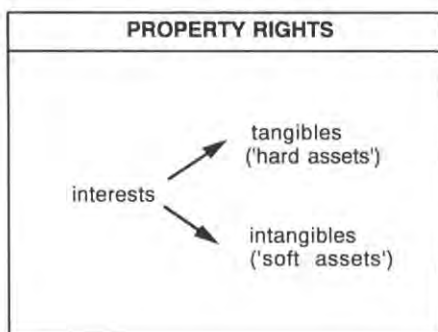


fig. 3 Tangibility of interests for property rights

'Tangible' is not meant in the physical sense but tangible for property rights. And tangibility for property rights seen *not* from the stance of protecting liberty of choice, but *property rights facilitating the market-conveyability* of goods. Through property tangibility interests become tradable: their transition capacity increases and thereby fruitful exchange is enabled.

*In modern economies intangibles grow in importance faster than tangibles*

However, in private enterprise as well as in the public domain, an autonomous trend of increasing intangibles and decreasing 'hard assets' can be observed. Hence, if the nature of interests is intangible e.g. urban aesthetics, the design of a product, community development, personal growth, then we in fact mean to say that such interests are non-market conveyable, but interests of *economic value nevertheless*. To neglect such human and social energy would be highly inappropriate and

prejudicial for anybody studying the ordering of driving forces in and among households.

Why then do we hesitate to call it 'market conveyable' instead of 'tangible'? Because market-conveyability implies tangibility for property rights, but non-tangibility does not imply non-market conveyability. The reason is that mainstream economic thinking from which the conception of the market mechanism originates observed a domain of economic goods which was mainly physical. In those days agriculture and mining resources together with bulk goods production were the mainstays of the economy. They were considered 'capital' to which labour was added. Being tangible and physically delineable, property rights could simply be applied. Therefore they were conveyable, from one owner to the other: they could be exchanged. Weighing of 'this for that' took place on the market, first in a personal exchange process and later non personalistically as part of an aggregate demand-supply interaction. The former personal exchange took place and takes place in small communities and clans in which countertrade evolved, the latter in so-called modern societies through monetarized trade. Hence tangibility for property rights and ponderability in money shaped the exchange mechanism of the market. Tangibility led to quantity; from this followed the pecuniary ponderability (or 'price') through the matching of quantities demanded and supplied. Tangibility or hard assets allowed the growth and final dominance of a monetarized market. This fact has shaped economic thinking into a mainly physically tangible direction. And *being tangible they were tradable*; in other words, with physical goods, *tangibility, conveyability and monetary ponderability are synonymous*. Although this shape of market exchange persisted, tangible interests are no longer the sole interests to be ordered: intangibles have become increasingly relevant and will continue to do so. The main challenge of future economies is *how intangibles* can be conveyed into coherent superpositions.

*Historically, tangibles alone were market-conveyable.....*

*.....which resulted in the appearance of the market in one form alone: the monetarized one*

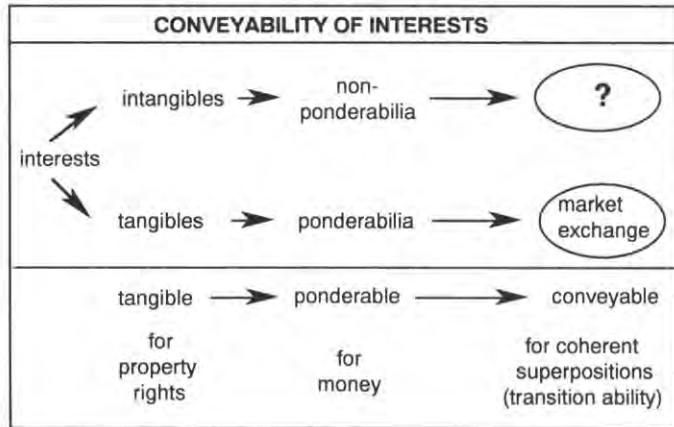


fig. 4 Tangibility, Ponderability and Conveyability of interests

But through the emergence of intangibles the linkage of market with tangibles is disrupted: intangibles have to be conveyed personalistically

A considerable amount of intangible interests could not, should not and never has been exchanged through a non personalistic market weighing process. Allocation was made only *outside* the formal state and market system mainly on a personalistic sharing basis. Indeed they were shared, stimulated by the gift principle 'do ut des' in communities of such scale that *personalistic* interaction allowed for the immediate feedback to an act motivated by the 'do ut des' expectation. In that respect the personalistic market allows for the kind of *intrinsic* ordering which can be observed *within* one household. Reciprocity in the sense of both complementarity and trust, as shown in chapter 12, were the key in the allocation of intangible interests. Thereby such intangible driving forces would effectively materialize in communities and among households, *notwithstanding their non-ponderability* in pecuniary terms. Because of the personalistic scale the required permissiveness was allowed for. As a result, no particular device like market or state was needed: the personalistic scope of exchange allowed for the *conveyability of intangibles*. From this we can conclude that although *tradeability implies tangibility* for property rights, non-tangibility does not have to imply non-conveyability if we accept the premiss of personalistic exchange.

But what if the scale of the economic context *outgrows* the possibility of personalistic *checks-and-balances* ? As we know this has happened and the 'do ut des' expectation no longer seems justified in the modern economic context of mass society - or justified only for powerful economic agents because of their *economic balance of terror*. The intangible interests therefore lack a fair chance of being realized: their exchange in the market is not possible in a time of increasing use of non-personalistic mass exchange.

Classic market weighing processes based on property tangibility are thus inadequate for intangibles. A market for such interests or goods, e.g. externalities, intrinsic interests, merit goods, moral values, does not exist: such interests can only personalistically be *shared*, not objectively exchanged. And principally, they should indeed be considered non commensurable. They need a kind of interests allocation such as a personalistic market, forum or barter trade.

The ultimate reason for lacking monetary ponderability is two fold. Firstly, the good in itself is *intrinsic* to the act of the agent. Being indivisible from the agent, the good is no longer external: the intrinsic interest *cannot be owned by anybody else*. Therefore tangibility for property rights does not apply, let alone exchange. The actualization of intrinsic interests is in this case necessarily personalistic, never marketable. Such is the nature of intrinsic benefits and interests; they are simply not prone to any weighing and/or cost-benefit principle whatsoever. Hence their name "non-ponderabilia".

The second reason why interests lack monetary ponderability is their indivisibility resulting from the inapplicability of ownership boundaries. Property rights cannot be applied. *Exclusion from the will of others by building barriers around the good is here not possible*. With many public goods this is the case as it is with the so-called '*res nulli*'-goods: something not owned by anybody. Since these interests cannot be owned by anybody they cannot be exchanged. Therefore they are non-ponderable and hence their name non-ponderabilia. Barriers could in fact be applied, but they would change the nature of the inter-

*Personalistic checks and balances can control the conveyability of intangibles.....*

*.....which a mass market cannot do*

*Many interests can only be shared, not exchanged in a market, e.g. the case of mixed interests in externalities*

*Monetary ponderability is absent in the case of an intrinsic interest, which is inseparable from the agent, or.....*

*.....in the case when ownership boundaries do not exist*



ests themselves. A well-known example is the division of national open parkland into private plots open for public visits resulting in a different commodity altogether. This kind of commodity we will relate to as *imponderabilia*, in contrast to *non-ponderabilia*. Intrinsic interests may only be *non exclusive* because they are *not adequately tangible* for property rights in the sense that *the costs of compromising the nature of the interests at stake outweigh the benefits of applying property rights*. In the absence of such barriers, no market can possibly exist. Nevertheless, these interests *do* constitute most relevant driving forces of man in *need for actualization* in any society and have potential monetary consequences. So far, however, no distinction has been made between *imponderabilia* and *non-ponderabilia*: between *public goods* which are eventually property tangible (and therefore potentially tradable subject to privatization) and other such *res-nulli* goods which are by nature not tangible for property rights.

*But in both cases they are interests to be actualized nevertheless*

Although not *exchangeable*, both *non-ponderabilia* and *imponderabilia* can be *shared*. Especially with many externalities we saw that they can be *shared, but not traded*. Sharing starts with jointly developing ideas about the common aim: this is superior to producing parts of the solution independently and then trying to exchange them in a market when there is only an imperfectly applicable cost-benefit principle. And without being able to apply such a principle, no price mechanism can work effectively and hence no market exists: a missing market.

*Imponderabilia are different from non-ponderabilia*

The difference between *imponderabilia* and *non-ponderabilia* is therefore that the former goods are indeed external to those who share it, but market weighing is possible by changing the nature of the good. Therefore weighing or applying the cost-benefit principle is with *imponderabilia* *not* a proper route to allocate the interests *but* it might be considered *worth* the cost. With *imponderabilia* the exchange requirements of ownership hampers the allocation of interests.

*Conclusion on the stakeholders' analysis.....*

We conclude by an overview of the nature of interests, as shown by figure 5.



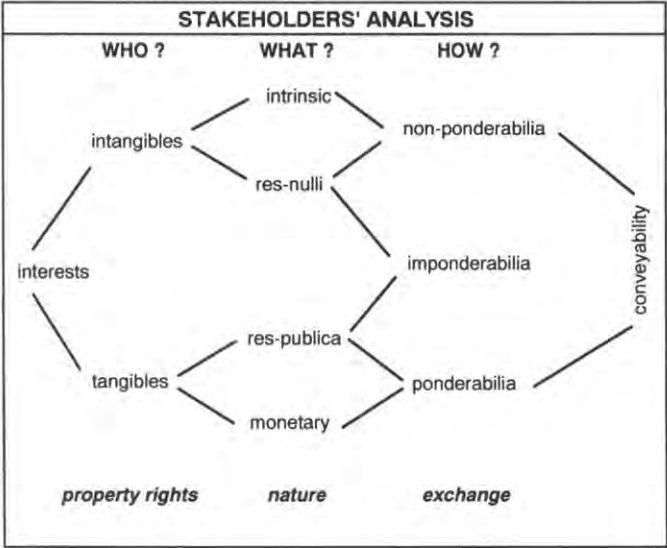


fig. 5 Stakeholders' Analysis on the nature of interests

The *heart* of the analysis is the central column of figure 5. It identifies the nature of the interests at stake. The quest for utilization value consists in *adding* those interests identified and *to be identified* (through a participatory survey and strategic policy analysis) which are *complementary* to each other resulting in a new added value; and hence a *new market*. Establishing the critical mass of monetary investments combined with intrinsic contributions is the *crux*. This stakeholders' analysis is therefore indispensable in the quest for utilization value: the appropriate combination of interests into coherent superpositions.

The analysis along the above lines leads to the identification of the following: first, who has the interests, second, what kind of interests these are, and third, how can they be combined, as shown by figure 6.

*.....as the instrument for the quest for utilization value*

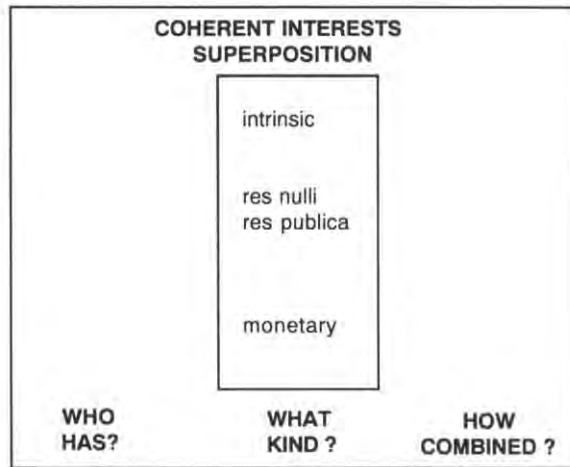


fig. 6 Stakeholders' Analysis: Towards a coherent interests superposition

*A project starts with the allocation of priorities among interests*

## 2. ORDERING INTERESTS INTO A PROJECT

Ordering interests into a project has to do with the allocation of priorities among interests, with the indication of ends whilst discriminating ends from means, and with the identification of constraints to appropriate economic action, as shown in chapter 2. It is also important to compare interests with one another, in order to identify specific strengths and weaknesses, which enable a judgement to be made on the direction (or strategic path) to follow. The quintessence of ordering interests and indeed of any ordering device is its *suitability to the nature and intrinsic added value of the interests themselves*. Should they hamper or compromise the final result corrections are required in the ordering itself and/or the ordering device.

*Rationality must be appropriate to the nature of the interests to be ordered.....*

This section therefore deals with the following: what *modus operandi* is best for ordering interests, i.e. the most appropriate rationality. The basis for any judgement on the appropriate rationality rests with a sound stakeholders' analysis. In addition, the acceptance by the decision-makers that *not one single modus operandi* is adequate for *all* interests is required. Neither

the market, not the state, nor a non-market / non-state device is a priori best: no such ideological stances should be taken by any individual focusing on utilization value. To once more convince households to refuse *such ideological position a priori*, we ponder for a moment on what we have concluded in chapter 8 on the driving forces behind economic action: interests can be mixed or particular. In figure 7 the mixed interests are to be found at the junction, the particular ones (both 'general' and 'self') labelled respectively 'social' and 'economic', at the extremes of the vertical axis.

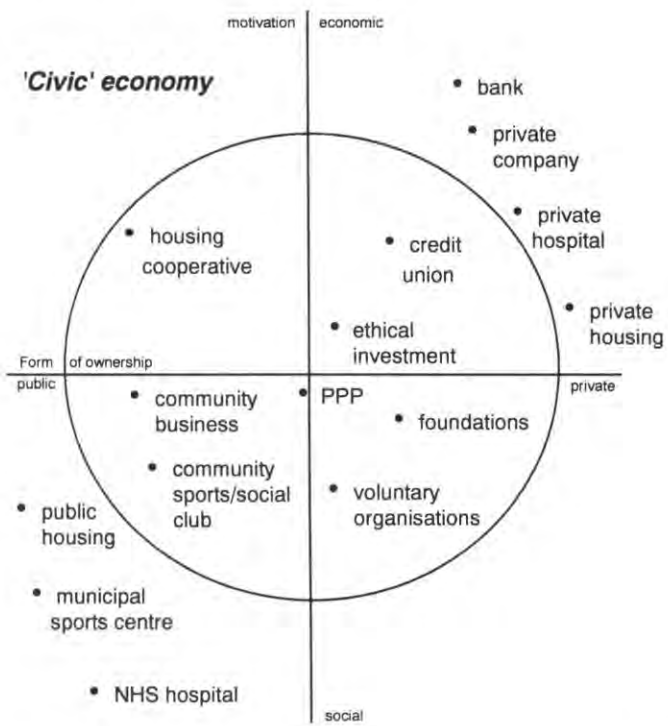


fig. 7 Market, state and the 'civic' economy according to the ownership and nature of interests <sup>95</sup>

<sup>95</sup> Palazzi M. et al., Op. Cit.

Hence we confirm the rejection of one single *modus operandi*

Having adopted the 'civic' economy we should locate it amongst its companions, the market economy and the state economy. This enables any agent to have an *open* eye for *alternative* ordering devices since *not one single* *modus operandi* of ordering (market, 'civic' or state) is adequate. The above figure identifies various interests according to public or private *ownership*, and to monetary or intrinsic *nature* of interests.

With respect to the direction of interests, we have to ask ourselves why certain forces constitute drivers for economic action. We have seen in chapter 8 that the driver can be in either of the three following directions, as shown by figure 8.

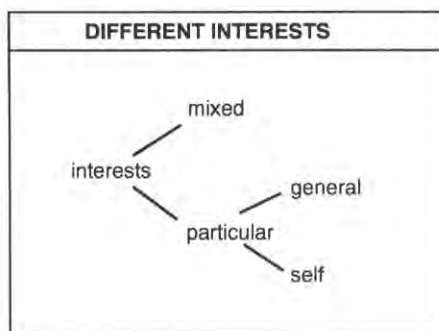


fig. 8 Interests are either mixed or particular

Actions are usually mixed but are treated as particular for methodological reasons

Although in every-day life most of our actions are mixed in their motivation, *mainstream economics considers the domain of our actions particular for methodological reasons*. Indeed, if particular, exclusivity can be construed and interests be improved through competition on a Darwinian market with survival of the fittest. If exchange on a market is not necessary, and such is the case with the allocation decision of driving forces confined to one singular household, then the theorem of particular self or politically decided general interest is *not relevant* because it would even hold if factually the interests were various and non-particular. This is because the outcome can be produced using various other faculties besides the particularly operating faculties *since there is no interference* by others. It is however self-

implicit that one would define interest optimization, *not* necessarily self-interest maximization as the direction of economic actions.

However, if various households join to take an allocation decision, non-monopolistically, then interest optimization through self-interest maximization can prove dysfunctional when particularity towards the self compromises intrinsic interests and neglects the essence of why interests are mixed. The results of game theory, especially the case of the prisoner's dilemma, underscore dysfunctionality of non cooperative behaviour in the case of mixed interests, unless a complete overview is possible. Therefore, market and/or state as the vehicle for ordering interests will be inadequate: the free rider phenomenon will then dominate the market for externalities.

The complexity of mixed interests of various households, or the mixed interest of one household, will weaken the effectiveness of ordering interests through a mechanism based on the particularity of interests, and on Darwinian competition: such dysfunctionality through market barriers leads us to the alternative of the 'civic' economy besides the standard devices for ordering interests, as shown by figure 9.

*This creates no problems within a household but it does in case of exchange among households.....*

*A device not based on particularity is required for mixed interests: 'civic' economy*

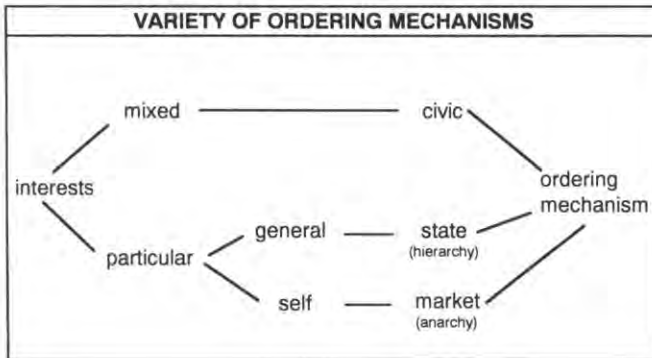


fig. 9 Interests and ordering mechanism

*The simple market ponderabilia of price and quantity fit particular goods but are too homogeneous for the heterogeneity of complex mixes of interests*

*Therefore the 'civic' economy has to transcend such market forces*

The process characteristics of the classical ordering mechanism of market and state are not always suited for the essentialia of the interests at stake. As we have seen, the weighing process of the non-personalistic market is invisible, but can nevertheless be efficient for interests which can be measured in terms of price and quantity. Such *simple ponderabilia* fit particular goods as, for example, candy bars. But such weighing fails if the goods or interests have diverse and/or non-particular dimensions: when they are mixed interests. The *homogeneous* ordering mechanism of market will fail because of the *heterogeneity* of the interests which typify complex interests configurations. The market device is not built for such complexity.

In this case, the complexity of mixed interests should be treated *as they are*: non-particular. And the ordering device should then be such that it *facilitates* and catalyzes multi-faceted interests to interact with the various dimensions of related interests in order to generate coherent superpositions. As an open system - not particular - the hidden and potentially fruitful interdependences can be exploited on condition that the ordering mechanism functions effectively. When market and state forces *hamper the collocation* of diverse but mutually reinforcing interests, the alternative should evidently *transcend* market forces and state planning. This is the characteristic of an emerging third sector, the 'civic' economy. It aims at bridging the gap caused by the duopoly of either public general interest or private self-interest sectors, and attacking the deficiencies which arise therefrom, e.g. externalities caused by the postulated dichotomy in interests.

The 'civic' economy, as shown in figure 7, consists of:

- non governmental organizations (NGOs)
- public-private partnerships
- community businesses
- voluntary sector

- credit unions and community banks
- charities
- foundations
- socially responsible companies
- cooperatives
- informal sector
- ethical investment funds
- other activities to be identified

Transcending market and/or state forces, the 'civic' economy effectively overcomes the *postulated dichotomy* of either the general or the self-interest being exclusively pursued by either the public or the private sector <sup>96</sup>. Instead it postulates economic action based on mixed interests: the decisions of its participants aim at both social and non-monetary as well as economic and monetary goals. These goals are usually *on par* in the 'civic' economy. And therefore the translation of the dual interests into effective economic action ("complex synthesis") will take place outside the strict boundaries of state and market <sup>97</sup>. The prefix '*civic*' is closely related to utilization value; it implies citizens acting as stewards of *all* resources not only confined to those in the self-interest sphere but also those of the citizenship, of the community at large.

We now conclude our overview of the second trait of ordering interests on the basis of utilization value by observing that some mixed driving forces cannot effectively be transformed into coherent superpositions because market and state forces are too homogeneous for the heterogeneity at hand. But we simultaneously maintain that differently natured interests, which are

*It denies the dichotomy of either public or private.....*

*.....and treats social and monetary objectives on par*

*Conclusion on the ordering of interests into a project*

---

<sup>96</sup> Drucker P., in Palazzi M. et al., Op. Cit., page 34

<sup>97</sup> Palazzi M. et al., Op. Cit., page 38

particular in their orientation, e.g. defence, justice as well as a candy bar, will remain best ordered through state and market mechanisms respectively since these devices are appropriate for such homogeneous interests.

### 3. THE PROCESS OF ORGANIZING GOOD INTERESTS CONFIGURATIONS

*Bringing together ponderabilia, imponderabilia and non-ponderabilia requires, process-wise, the simultaneous application of various modi operandi.....*

If and when various interests are to be mixed into one coherent superposition, then different modi operandi for ordering should *simultaneously* be applied. Ponderabilia can *adequately* be structured through the market or state mechanism, as can commercial or political objectives. Some imponderabilia however can (only *at a cost*) be made tangible for property rights, be it as private property or public property, and so introduced to market or state. In both cases cost-benefit principle could be applied, so that even public goods can be made market conveyable (e.g toll-roads). Non ponderabilia on the other hand are so intimately linked to the agent that they are no longer external goods and hence can *never* be market conveyable, or tradable. The classic *mono utility* market is hence highly *inappropriate* for organizing such *complex synthesis*. Therefore alternative vehicles for ordering such interests and coherent superpositions are required, failing which such most valuable human and social potential will not be realized. The purpose of such vehicles is to catalyze the interaction of interests in such a way that they are linked into combinations where complementarity is exploited which would otherwise not occur.

*.....and the creation of strata of interests' encounters which are better suited for complex synthesis*

Creating a 'strata of interests encounters', so that interests interact in a limited chaotic way (such interest interaction will show a fractal structure) might prove far more effective in such complex situations. Such strata are found in public private platforms, community committees for urban revival etc. The ordering process described here has some distinct characteristics which are further investigated in real life cases in chapter 12 <sup>98</sup>. The

---

<sup>98</sup> A forum (or urban think-tank) will regularly bring together public and private sector participants to discuss problems of mutual interest; they are rooted in a practical concern for local



reality of *personalistic* experience in such public private forums prevents the *false* dilemma often practised when ambiguity in the interests of different stakeholders occurs: the often stated incompatibility of public and private interests is more often an *assumption* born out of differences in culture and perception than factually based on the *reality* of interests and stakeholders' analysis. As a result of this analysis, *chaos* can best be structured by not focusing on the *project* itself but on a sound *process* management of the stakeholders interaction and their various interests by a third party. Such processes of *ordering complex interests' configurations* testify of some essential traits. These traits can be identified both in the case descriptions of *wholly private* partnering processes as well as *public-private* partnering processes. The former are described by Cummings <sup>99</sup>, the latter are described by Kloppenborg <sup>100</sup>. Such partnering processes will now be theoretically summarized and later detailed out in chapter 12.

The managed interaction which is proposed here should start from the virgin idea-phase to the final realization-phase. If in projects complementarity of interests exists, then a coherent superposition unifying the different interests can be identified such that the means and resources are directed and linked accordingly. First, such superposition is to be *jointly* formulated in order for a directional feasibility assessment to identify the moulding together of various resources and means not necessarily confined to any ordering device (intrinsic ordering). The added value of a coherent superposition has to be formulated in any partnership with all parties *agreeing* on the level of *ambition*, as shown by figure 10.

*Process characteristics summarized:*

1. A directional feasibility assessment which aims at intrinsic ordering, not at the market exchange ordering

---

economic and social well-being. See Conclusions on institutional and organizational structures, on page 11 of 'URBAN DEVELOPMENT AND INVESTMENT: PUBLIC AND PRIVATE COOPERATION', OECD, Paris, 1989.

<sup>99</sup> Cummings T., The case of ITT-Digital, IMD, Lausanne, Switzerland, 1990

<sup>100</sup> Kloppenborg P.H.L., PUBLIC-PRIVATE-PARTNERSHIPS IN URBAN DEVELOPMENT, Amsterdam, The Netherlands, 1987.

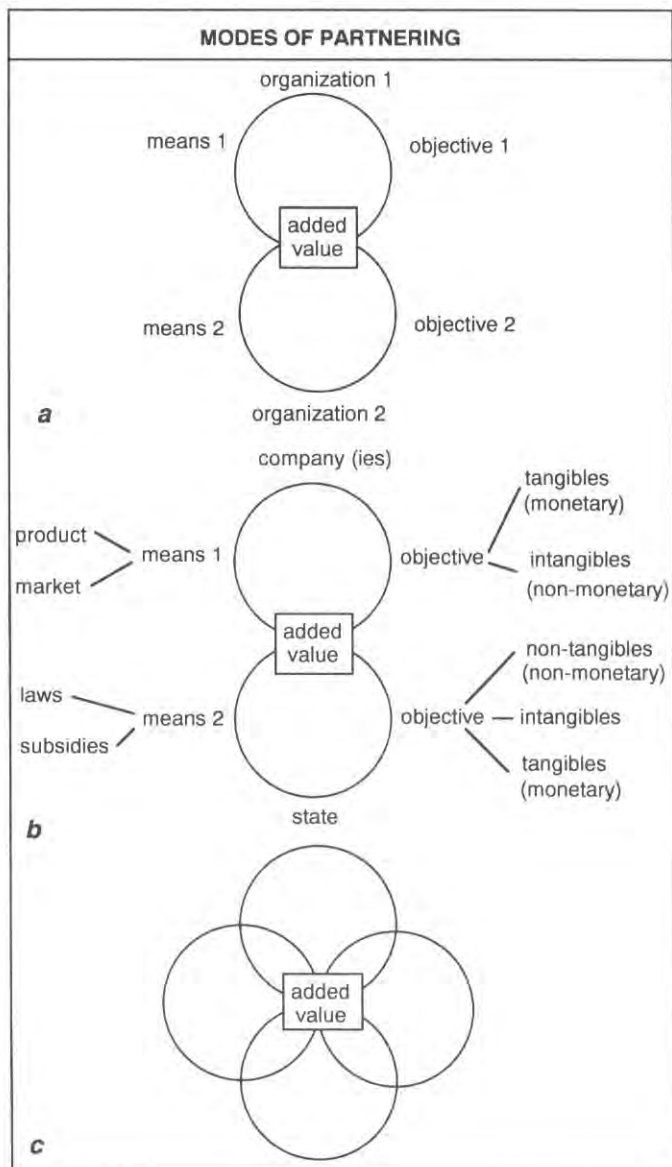


fig. 10 a. party partnership, b. public-private partnership,  
c. 4 party partnership

The definition of the ambition level occurs at the idea phase of the actual *joint idea development*. This is now the key for exploiting the potential of interests encounters. The goal here is to formulate a *unifying conception* integrating the diverse interests of stakeholders which is then translated into an investment plan. Hence not through market exchange, nor state planning ex hypothesis, but through the *combination* (complex synthesis) in a personalistic forum or platform of decision-takers are such interest superpositions triggered. *No preconceived* interest constellation by any one of the partners applies. Interests and the underlying know why of the decision takers are combined with supporting knowledge and know-how in a cyclic process step by step: from idea to concept to plan to investment decision, as shown in figure 11.

2. *Joint idea development which combines different interests*

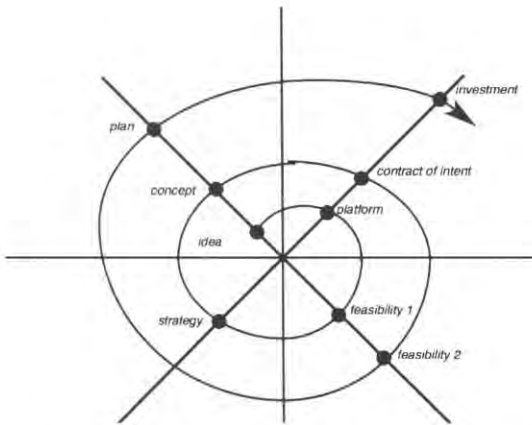


fig. 11 Joint Idea Development (see also figure 5, chapter 12)

*Know-why* decisions and *know-how* are clearly separated, as shown by figure 12. The reason for their separation is to prevent that *know-how* arguments *dilute the already complex* *know-why* discussion which aims at bringing together diverse public and private, tangible and intangible interests. To do away with intangibles as non-ponderabilia, because *they do not fit* into the normal weighing procedures of market and/or state, would put at risk the potential coherent superposition altogether. This could in turn result in serious societal deficiencies.

3. *Separation of know-why decisions and know-how arguments to prevent the dilution of the already complex discussion on the various interests*

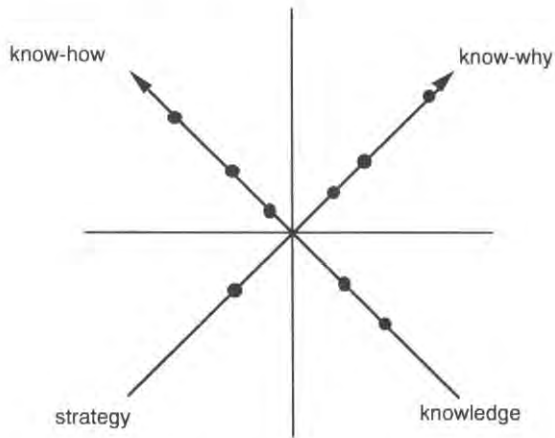


Fig. 12 Separation of know how and know why

By allowing such different *modus operandi* thanks to good process management by a non-stakeholding third party, new interest constellations become feasible outside the market and state.

*The above  
concepts applied  
to PPPs*

With the above process description we have finalised our third focal point: how to structure interests. In the following chapter we will study the application of the basic concepts in real life cases of public-private-partnerships.





## 12. UTILIZATION VALUE APPLIED: THE CASE OF PUBLIC-PRIVATE PARTNERSHIPS IN HANDLING EXTERNALITIES

The basics of the quest for utilization value explained in chapter 11 are applied to order the rather complex interest configurations typical of externalities in an urban context. *A device to be used where the standard market and state system has not been successful in ordering such complexities* are Public-Private-Partnerships. The *theoretic failure analysis* of chapter 8 and 9 will now be complemented by a *practical methodology of participants' observations* in a number of PPP cases (see note 113). These cases also function for our study on the quest for utilization value as *induction-from-experience* from which we can reach conclusions on some process characteristics not only found in urban PPPs but *also in other contexts* where complex interest configurations are to be ordered. This will be the subject of chapter 13.

Public-Private-Partnerships (PPPs) first emerged in the 80s in the field of urban development. They were considered an important tool for handling the different dynamics of those urban development projects which feature the *goal convergence* and *interdependence* of public and private parties. Since externalities are bound to result in these cases we can conclude that such urban context is of too high a complexity for the market and state hierarchy to be effective.

Defining public private partnership is necessary in order to use the concept as an appropriate watch word. McNulty<sup>101</sup> defines PPP as:

*"a sustained collaborative effort between the public and private sectors in which each contributes to the planning and resources needed to accomplish a mutually shared objective".*

*The theoretic failure analysis of market and state is now complemented by a practical induction-from-experiment: the case of public-private partnerships*

*PPPs emerged in the 80s to tackle urban externalities*

*PPPs can be defined in three ways:*

*McNulty's definition*

---

<sup>101</sup> McNulty R.H., PPPs and urban revitalization in the USA, in the OECD-Turkey seminar on Government relationships in Urban Development, 25-28 June 1984.

However it does not imply a *specific* project and/or a legal framework, nor does it classify it according to whether an objective is shared.

Nijpels'  
definition

A second definition by Nijpels <sup>102</sup> distinguishes six elements:

1. *Joint collaboration to fulfil a mutually agreed objective.*
2. *A specific organizational framework set up by parties of this purpose.*
3. *The parties retain their own identities.*
4. *Each party identifies itself with its own objectives.*
5. *Input of resources, risk-bearing responsibility and returns are clearly shared by the parties together.*
6. *The project has clear phases.*

This formal definition distinguishes PPP from other types of cooperation such as the joint venture. In the joint venture the partners only differ in resources and instruments, but their *objectives are the same*, e.g. the development of a market or a product *known in advance*. But a PPP is different. The partners differ not only in resources and instruments, but also in objectives. The *complementarity* of the sectors, the fact that the work of each can improve the performance of the others, so that the whole is, indeed, much more than the sum of the individual parts. The other side of the coin is the scope such area offers for the *substitution* of one sector for another, e.g. the case of privatization from which PPP is different <sup>103</sup> as we will see later.

Our definition

A third definition focuses on the rationale behind PPPs:

*"Public Private Partnerships are frameworks for integrating complementary interests and joint efforts of the public and private sectors in order to address societal problems in communities. Through their high complexity or scale such problems are of an extraordinary nature and require alternative devices for ordering*

---

<sup>102</sup> Nijpels

<sup>103</sup> Baumol W.J., Matching private incentives to public goals, in Brooks et alia, page 191, 1987.



interests apart from the usually effective mechanisms of market or state hierarchy <sup>104</sup>. The PPP device combines public powers, on the one hand, and private resources on the other, with a joint acceptance of risks as a result ".

The complementarity of the different means and the communality of objectives can usually be discovered after a proper stakeholders' analysis, which aims at identifying the nature and direction of resources and common goal.

The complementarity of means and the communality of objectives is too complex a task for the invisible hand of the market....

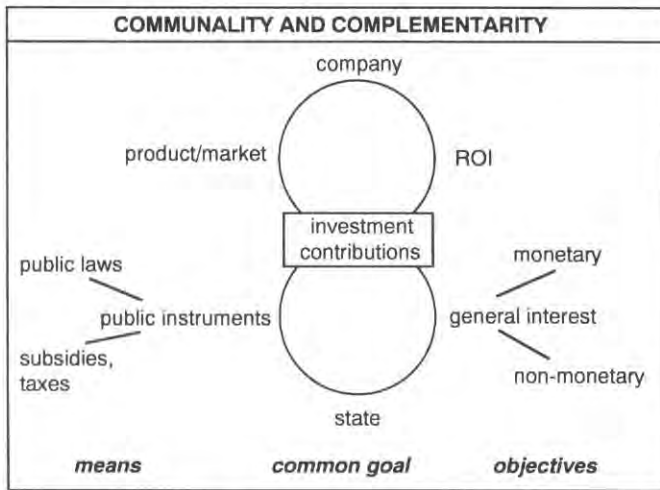


Fig. 1 Communality of objectives & complementarity of means

Through a PPP what is achieved is an *intrinsic* ordering among stakeholders through creative negotiation <sup>105</sup> instead of *market exchange* which would *hamper the release of non-monetary contributions*. The rationale of PPPs is to solve externalities by linking interests of a *diverse* nature into a coherent superposition. The premiss is that such linkages are too complex for the market device to order effectively.

<sup>104</sup> Kloppenborg P.H.L., PUBLIC-PRIVATE-PARTNERSHIPS IN HET STEDELYK HERSTRUCTURERINGS PROCES, Amsterdam, 1987, page 1.

<sup>105</sup> Brooks H. & Liebman L & Schelling C.S., PUBLIC-PRIVATE-PARTNERSHIPS, NEW OPPORTUNITIES FOR MEETING SOCIAL NEEDS, Cambridge, USA, 1987.

*A public-private partnership is a different device from decentralization or privatization*

*PPPs are subdivided in their manner of allocating property rights and decision accountability*

To underscore the ineffectiveness of the standard devices and hence to opt for the more intricate PPP device, it is of tactical importance to have experienced that other *alternatives* to improve allocation processes such as decentralization and privatization *have not been effective*. It also helps in advocating the inherent *exceptions*<sup>106</sup> of the PPP-process. Whereas decentralization implies *shifting decision accountability and means to lower levels* within one sector, privatization consists of a *change in roles and responsibility altogether from the public to the private sector*, on the premiss that market allocation is more effective than state hierarchy. A PPP, on the other hand, implies reinforcing<sup>107</sup> the *integration* of a commitment by parties from different domains of society and combining their means and resources in their heterogeneity on the premiss that a *superposition* of interests will indeed lead to a feasible outcome.

Instead of treating mixed interests as an *addition* of separate self-interests and a *distinct* general interest, and *dissecting* the interdependence, PPP focuses on their integration, thereby maintaining the *communality* of interests per se.

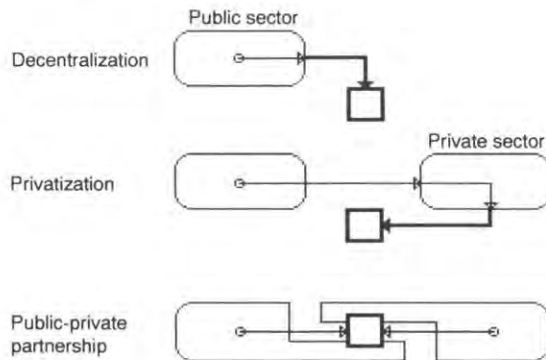


Fig. 2 PPP, Privatization and decentralization

<sup>106</sup> "PPPs put local democracy under pressure", see P.H.L. Kloppenborg, Lecture at OSO Annual Meeting for Recreation & Leisure Authorities, 4-5 June 1987.

<sup>107</sup> A PPP is not less of a commitment by the public sector as it is frequently supposed but more so.

The manner of allocating property rights over means and resources, and the related decision accountability, allows for a subdivision into different PPP forms. This we will investigate later as it profoundly influences the PPP organization and its function.

Having discriminated a PPP from other improvements in allocating means and resources and having defined a PPP both from a formal stance (Nijpels) and causal stance (Kloppenborg), we can now proceed with their function: to remedy externalities in order to *spur growth where it otherwise would not occur*. Economists like Meade, Coase and Foley<sup>108</sup> have suggested remedies by setting up *markets for externality rights*, which could support PPPs. Examples could include entry barriers against would-be free riders, as shown in chapter 8, the development of exclusivity rights, an advantageous fiscal regime or public financial guarantees (e.g. the Zeedijk-case in the Netherlands<sup>109</sup>) which can be initiated by the public sector to aid private risk-takers.

*PPPs spur growth by.....*

Heller and Starrett have argued<sup>110</sup> that potential markets might presently be inactive because of the *non-existence of a complementary market*. We have defined the combination of existing and 'future markets' as a "*coherent superposition of various interests*". The partnerships which we propose *aim at creating a future market* through the combination of public powers and private resources.

*.....superposing 'existing' with 'future' markets*

108 Foley, D., "Lindahl's Solution and the Core of an Economy with Public Goods", *ECONOMETRICA*, January 1970, 38, 66-72. Meade, J., "External Economies and Diseconomies in a Competitive Situation", in A. Arrow and T. Scitovsky, eds., *READINGS IN WELFARE ECONOMICS*, Homewood, Illinois: Irwin, 1969, 185-198.

109 Publiek-private samenwerkingsvormen, praktijkcase NV Economisch Herstel Zeedijk, Holtus et alia, Master's Thesis, EUR Rotterdam, May 1988

110 Heller & Starrett.

Such super-positions are not to be formulated in isolation by other parties

The quintessence of a PPP is that public authorities are best capable of determining the future market not by legislation and standardization, but through creating the future market jointly with the private sector. The *formulation of one common goal*<sup>111</sup> and a *survey of interests*<sup>112</sup> on the basis of a stakeholders' analysis without discarding the objectives of each party, will determine the organizational and legal ordering of interests, and hence the financing possibilities. So intelligent an ordering is something the market mechanism is not capable of.

The main argument for joint formulation emerges from the occurrence of externalities. It is precisely in those situations where *neither* the private economy *nor* the public economy (: privatization and decentralization have not been effective) will willingly run the originally proposed market that externalities occur. *Instead*, a 'civic device' is hence proposed.

Through a methodology of participant observation over 6 years in PPPs, four key characteristics have been identified:

When a project is envisaged for which there is no immediate market and which includes uneconomic investments, the partnership construction is employed to create such a market. Characteristics of a PPP, based on accumulated PPP case-experience<sup>113</sup> - *methodology of participant observation* - have been identified as follows:

- A joint development of ideas;
- B directional feasibility assessment;
- C policy-making by a quasi-public body and implementation by a not-for-profit project agency;
- D definition of interests by parties involved.

1st PPP characteristic: joint idea development

A Joint development of ideas  
Public-private partnership (PPP) is basically different from other types of cooperation such as the joint venture. In the joint venture, the partners only differ in resources and instruments.

---

<sup>111</sup> Joint development of ideas.

<sup>112</sup> Directional feasibility assessment.

<sup>113</sup> As from the case experience of the following projects: Rotterdam Waterfront, Schiphol Area Distribution Zone, Arnhem Waterfront, Tilburg Leisure Project (all in the Netherlands, Europe), Gaborone Fairgrounds (Botswana, Africa).

In a PPP partners *differ* not only in resources and instruments, but also in *objectives*, the government focusing on the general public interest, the private sector focuses on specific business interests. The challenge of PPP is to step beyond these objectives and *arrive at a common goal* (without sacrificing the objectives of the separate parties), this being one of the key characteristics of a PPP. *Instead of market exchange* it is through *intrinsic ordering* among identified stakeholders that a goal is arrived at.

*Notwithstanding different objectives a common goal is jointly to be formulated*

A good example is the Parkland project, in which the common goal is to arrive at an improved and coherent tourism product, including recreational elements, which is better tuned to the requirements of the customer, the tourist. In this partnership, the competitors Libema (Autotron Rosmalen), the Efteling (an amusement park) and the Recron (the association of entrepreneurs in recreation) worked together with the government of North-Brabant and 5 municipalities in this province. A new legal entity has been established, the Parkland Foundation, to function as a *tourism broker*<sup>114</sup>: to bring demand and supply together in the local tourism market. The improved products offered will generate new flows. This will benefit the interests of both the private sector and the province and municipalities. The *qualitative* improvement of the product will result in an increase in the number of day trips and short holidays. For the region this will result in further income and employment and higher revenues for the private sector. Hence a common goal is achieved from different objectives.

*North Brabant region-case: a tourism broker*

It should be noted that the *creation of additional income streams* is the *ultimate criterion for success* of a PPP. It will succeed only if the parties, on the basis of their own objectives, are aware of the importance of a common goal and are willing to pursue this.

*The creation of new income streams is the ultimate success criterion*

---

<sup>114</sup> Heller and Starrett stress the function of marketeer by private brokers and cite the frequent failure of such future market maker (the PPP-partners) as an eminent cause of externalities; such broker should adopt the marketeering function of linking existing with complementary markets to create a coherent superposition of interests as testified by the future market.

The point of departure are informal meetings to define know-why.....

Experience has taught that the common goal is only recognised as such if government and private sector seek contact in the *first phase of project identification*. Before either of the parties has formulated his own project approach, *informal meetings* of interested parties will have taken place, for instance in the form of an advisory group such as the City Marketing Club in the case of the urban reconstruction of Arnhem, or a committee in the case of Schiphol Airport, or a broad-based steering group of regions, Chambers of Commerce, etc. This informal starting point of the joint development of ideas can be characterised as problem-defining (know why), not problem-solving (know how).

.....not problem solving

The discussions always focus on the *views* of each partner on the nature, cause and background of the problem or project in question, so as to arrive at a *common problem definition* as the basis for then formulating the common goal. The *nature* or "*know why*" of the presence of externalities is to decision-makers *more important* than the "know how" of solving the problem. This is often *contrary* to what most of the participants initially expect, for after all they enter the discussions with an attitude strongly aimed at problem solution and project approach. This attitude should be overcome first: marking time, or even better, going back one step.

Next, parties' intentions are summarized in a negotiation document.....

In the Parkland project, this step backwards was achieved by drawing up a *negotiation document*. This was the result of a number of interviews with each of the parties in the negotiations: the stakeholders' analysis. In the private sector this was primarily aimed at *participation research* (networking among prospective investors), while for the various municipalities in Brabant *policy analysis* was the central issue. The opportunities for private-sector participation and the policy targets of the public sector were brought together, and the resulting project concept was confirmed by a declaration of intent. This completed one of the most essential steps in the PPP process.

.....linked to a project concept

It is important that the parties' intention to cooperate is mentioned in the document

It is of great importance that the parties' *intention to cooperate is attached to such a concept*, for instance in the form of a covenant related to the common goal, even if

the objectives of the parties continue to differ (in such case the conflicts are to be mentioned, too).

For instance, in the case of the distribution zone around Schiphol Airport <sup>115</sup> the situation involves two municipalities which are primarily interested in obtaining a high land price and in creating employment, while the independent province wants to serve *higher general* interests by further development of Schiphol. This includes serving the national imperative of 'Holland-Distribution Centre': The Netherlands as the European nucleus in the network of international trade flows. Concentration of transport flows is essential for the optimal development of spin-offs <sup>116</sup>. Policy analysis and participation research result in the identification of the relevant interests, as shown in fig. 3.

*Schiphol-case:  
distribution zone*



Fig. 3 Stakeholders in the Schiphol Airport Distribution Zone

<sup>115</sup> P.H.L. Kloppenborg, "Schiphol Area Development" - A case study on PPP for infrastructure, lecture at the 12th INTA World Conference Malmö & Stockholm, Sweden, June 12-17, 1988.

<sup>116</sup> "The interaction between Schiphol Airport and the Region", Armkreutz & Veldhuis, Tijdschrift voor Vervoerswetenschap 1987 jrg. 23/4.

The common goal becomes the development objective of the PPP.....

A stakeholders' analysis which identifies various stakes which potentially are mutually conflicting but also supportive is usually accompanied by a statement of the common goal: the PPP's development objective. The example of Schiphol Airport is illustrated in figure 4.

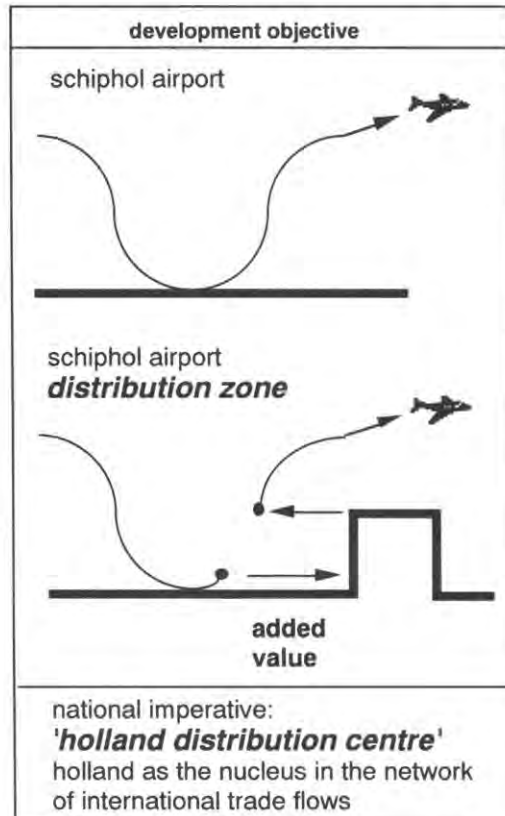


fig. 4 Development objective

.....whose added value guides all partnership activities

The development objective embodies the distinct added value that *per se* is the drive and rationale for a partnership. Therefrom stems its alternative name of 'added value partnership', or VAP. Usually its edge is a qualitative improvement resulting in either the release of extra funds in case of positive externalities, or a decrease of societal costs in case of negative externalities.



By signing a letter of intent the parties confirm the attainment of such distinct added value through their interests' superposition to be the strategic direction of the PPP.

In the case of the reconstruction of the Arnhem Waterfront Project <sup>117</sup>, the central issue is the 'political will' that the river regains an important place in the city's development. Many initiatives had stranded in the past. In the cooperation construction, the city government and the private sector committed themselves, with respect to the development process first, to joint preparation of a plan and its implementation.

It is essential to realize and accept that conflicts among the parties are bound to occur in any PPP process; this is inherent to their having different objectives. Acceptance of conflicts can more easily be gained by keeping separate the differences of opinions on 2 distinct problem-categories, as shown in chapter 11:

- *know why*. Selection of parties which constitute the platform; devotion of time and energy to an idea; intention and commitment to a project-concept; investment in a plan.
- *know how*. Idea; concept; plan.

That is why the *intermediate* step of formulating goals and putting intentions on paper is of such importance if a PPP is not to fail before it has even started. The *stepwise* development of a common goal among various stakeholders from a global idea to the coherent superposition of interests in which parties willingly invest, is illustrated by the following figure on joint development of ideas in the case of Schiphol Distribution Zone. One can clearly distinguish here a know-why axis of decisions on policy and strategy and a know-how axis of concepts for implementation, as shown by figure 5 on the next page.

Arnhem  
Waterfront-case:  
urban waterfront  
re-development

Conflicts will  
occur since  
objectives differ  
and hence know-  
how and know-  
why should be  
separated.....

---

<sup>117</sup> Kloppenborg, P.H.L., "The Arnhem Waterfront public private partnership- A case study", Lecture at the 11th INTA Annual World Conference London Docklands, United Kingdom, June 1987.

.....even by  
setting up  
separate  
organizations: a  
hybrid structure

This separation goes as far as *organisationally* creating 2 distinct bodies, one under public law and one under private law, which are *contractually twinned*. On the one hand the decisions on the know-why in the SADA Schiphol Area Development Authority (Bestuursforum): public law *coordination* body for policy decisions <sup>118</sup>. On the other hand, the implementation of the project in a private law *public company* in the SADC: Schiphol Area Development Company. An important conclusion is derived from this observation: the market device and its exchange requirements are *secondary* to the process requirements. Hence, *hybrid* organizations which *transcend market forces* are the result.

### overview of the development process

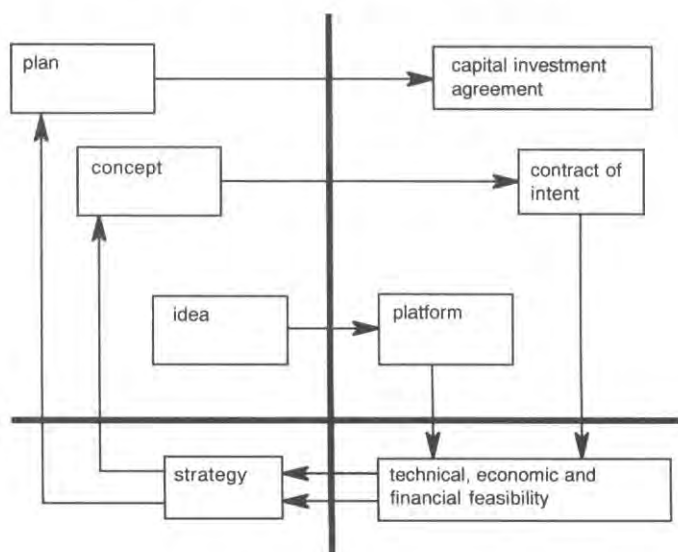


Fig. 5 Joint development of ideas:  
The case of Schiphol Airport Distribution Zone

<sup>118</sup> Bijlsma & Feddema, Het Schiphol Convenant, een voorbeeld van ondernemende planning, S & V September 1987.

## B. Directional Feasibility Assessment

The second characteristic of PPPs design has to do with the *nature* of the project's benefits and of the partners' resources. For the project's benefits can be quantified only *partially* in terms of money since the solution of a social problem implies, to a substantial degree a socio-economic effect. The direct cost-benefit principle can only partly be applied to these benefits in the semi-collective domain. The project would therefore by nature *not* be able to stand a business-economic test in the form of the usual *ex-post* feasibility study according to standard market allocation. This indicates the importance of a normative or directional feasibility study, which *ex-ante* directs the planning from idea to concept to project plan.

As a consequence, it is important not to start with a *final* plan, on the basis of which to secure funds. The development of the plan should rather be based on existing *and future* funding possibilities. Funding may consist of both monetary outlays *and contributions* in kind, non-monetarily, as for example public law, sweat equity. In other words, both "hard" assets and "intangibles" constitute funding sources, not solely market exchange sources:

a resource contribution in kind can be as important as an upfront investment per se. Usually *only the latter* is the subject which determines market feasibility. Both investing for benefits, to be recouped in the future, and contributing resources for project implementation are therefore "interest drivers". The willingness to invest hard-assets and to contribute intangibles is hence to be identified among various stakeholders.

A feasibility assessment should therefore start with a stakeholders analysis of benefits, objectives and resources as proposed in chapter 11 and shown in figure 5: defining ponderabilia, imponderabilia, non-ponderabilia; defining tangibles, non-tangibles (property rights); defining monetary and non-monetary interests. The benefits deriving from the achievement of a common goal which satisfy individual objectives and resources are both driving forces and hence to be identified in a proper

2nd PPP  
characteristic:  
directional  
feasibility  
assessment

Investing hard-  
assets and  
contributing  
intangibles are  
equally  
important

The  
stakeholders'  
analysis  
identifies both,  
market exchange  
the former only

stakeholders' analysis. Therefore, in the Parkland project it is necessary to make a survey of on the one hand the *permits* and the contribution arrangements of North-Brabant Province and ten municipalities, and on the other hand the *investment* possibilities of the private companies Efteling, Libema and Recron.

Coherently  
superposing  
hard-assets with  
intangibles is the  
crux of a  
directional  
feasibility  
assessment

The survey of the funding possibilities is part of what is called a directional feasibility study: it gives *direction* to the process of *identifying* a coherent superposition of interests <sup>119</sup>. It specifically consists of *selecting* "hard assets" and "intangibles" which are to be *coherently superimposed* so as to arrive at a feasible outcome.

Therefore, public  
powers and  
sweat equity  
have a feasibility  
implication  
despite being  
market  
imponderable

In this context it should be realised that the public powers of the government or all kinds of other intangibles, especially in the *informal* economies of LDCs <sup>120</sup>, may *not* have a *financial* expression, but do nevertheless represent a certain *market* value. This depends on the *direction* in which they are applied. For instance, *traditionally uneconomic* public investments in infrastructure for the Schiphol project could be financed by all parties if at the same time the land use planning powers were applied in the direction of specific *economic* purposes in coherence with a distribution zone such as office buildings, distribution centres etc., instead of social housing. Also in low cost housing in LDCs, the contribution in kind by the sweat input of self-help housing is a *market-imponderable contribution by the future user as stakeholder*. This interest at the "means"-

---

<sup>119</sup> Lindenbergh Ir., J.H.M., "...creative banking...". Financieel Dagblad, 1.2.1990, page 5 shows another case of a *coherent superposition of diverse interests*: shipbuilding for African bad debt 'swap'. A Dutch shipbuilder buys a fishing vessel from a bad debt East European builder at a discount. Through lease financing, the ship is sold to the African party without increasing its external debt. Through a project financing arrangement foreign revenues from the sale of fish is used to service the lease.

<sup>120</sup> Kloppenborg P.H.L., "Public-Private Partnerships in the Rural Development of LDCs", Post Conference of the African Ministers of Finance & Development Planning, Lecture, July 1990.

level is to be discounted as "*sweat-equity*" <sup>121</sup>. The standard *non-personalistic* market device functions *too homogeneously* to cater for such creative combinations of hard assets, intangibles and non-ponderabilia, nor is the *competitive* market device well equipped for *spurring interest encounters* in order to produce creative coherent superpositions of such diverse stakeholders as building companies, housing NGOs and public authorities as shown in chapter 9.

In a directional feasibility study the emphasis at this stage should *not* be for too long on the *magnitude* of the investment, but on the funding possibilities by stakeholders from *whatever corner* of society they may come, and of interests combinations of *whatever nature* they may be. In other words, what *public powers* - intangibles - should be *superimposed* on the *financial resources* - tangibles - to arrive at the desired benefits? Having established the minimum critical mass of interests to be achieved (: break-even point), the next step is therefore to identify hard and soft assets which will make the project feasible. In this process all public and private cash flows are *pooled*, connected to each other within the boundaries of the project and re-invested to carry out also the non monetary project components which should make the *whole* project economically feasible but which would *per se* be *uneconomic* as seen from a market exchange point of view. The role of the government in such a scheme is one of commitment, contrary to the often heard-opinion that the government should withdraw <sup>122</sup>. For if a PPP is to take off properly, then it is essential that the government brings in its public powers. Planning powers and feasibility are linked; in that way such *powers obtain a certain market value*.

The feasibility assessment can be illustrated by elaborating on the original chart on the complementarity of different objectives and resources (see fig. 1 in this chapter). This first overview can be completed after a stakeholders' analysis by a third party. Might the actual stakeholders

*Through pooling  
tangibles and  
intangibles into a  
coherent  
superposition,  
intangibles  
assume  
ponderability*

*The complemen-  
tarity of interests  
is first  
underwritten,  
then detailed out  
in three steps:*

---

<sup>121</sup> Kloppenborg, P.H.L., "Public-Private-Partnerships for low-cost housing in LDCs", HABITAT lecture at IULA, 11 April 1990.

<sup>122</sup> Kloppenborg, P.H.L., PT Aktueel

agree on complementarity and perceive the potential for a coherent superposition, then the first of 3 steps is to initiate a platform.

*1st step: selection, who benefits by what ?*

The first overview aims at selecting potential stakeholders; with whom consequently a more detailed directional feasibility assessment can be executed; to finally detail the coherent superposition of various interests.

Selection of parties is on the basis of a *participation survey*: which companies undertake what kind of activities that could benefit from the eventual common result, e.g. a Schiphol Distribution Zone. Then transport companies as final users, real estate investors in business parks and assemblers are potential platform-members. Also at the public side a major *policy analysis* will be undertaken to identify what kind of interests at which level of authority are to be addressed, and the effects of the eventual common result from such interests, e.g. enhancing employment in distribution and service sector, higher income from sales of municipal land, competitive profile of a nation, environmental nuisance (noise, bad air). Different public bodies, regional, local and national could be represented in the platform. Having completed the participation survey in the private sector and the policy analysis in the public sector results in the selected platform of potential stakeholders.

*2nd step: project concept, what is at stake ?*

The next step is determining the minimum critical mass of "what is at stake": developing a first project-concept, as shown by figure 6. The drawing presents an overview of the 6 relevant assessments among stakeholders which direct parties from an idea of the project to its concept and finally to a feasible common result. It is based on the participation survey and policy analyses of the draft stakeholders analysis.

*A 'minimum in common' is better than 'the best' in isolation*

The critical mass always has a certain minimum. The minimum magnitude which will realistically trigger participation is a key for both companies and the public sector to justify their *sacrificing* resources for a *final product which is yet unknown*. In addition to this minimum, the concept of "*which* interests are to be

served in what *product/market* combinations" is to be formulated and balanced with the "*relevant subset* of general interest-components" for which the political decision-makers chose to sacrifice resources. It is a political trade-off to select the prime general interests to be catered for. It is only on such minimum magnitude and concept (*not the optimal !*) that parties should strategically agree to direct the efforts on identifying funding possibilities.

To arrive at a concept *in common* is here more important than to develop the *best* plan. Experience teaches that usually the latter course is - wrongly - taken. The Schiphol critical mass consisted of a minimum concept of a "distribution zone for airfreight bound activities" on a minimum magnitude of 77 ha. land. On the basis of this strategy decision, emphasis was consequently shifted towards funding possibilities.

Here a proper investment analysis starting with the final user parties will identify the return on investment (R.O.I) requirements the private parties apply in serving their interests. An overview of public sector planning and allocated short term budgets and projected long term programs in catering for these interests is also required. In addition, what is to be identified are the type of public powers that through standardisation and /or regulation would be of a "market-making" nature. A first feasibility assessment consists of creatively linking the various funding possibilities with the minimum critical mass of specific product/market combination and of general interests served resulting in a *project-proposition* on which mutual consent has to be reached. Such consent is therefore to be formalized in a letter of intent, or covenant as was the case with Schiphol.

*3rd step: the  
final project is  
gradually  
unveiled*

The concept is hence not a plan proper. It is only the direction agreed for a common result which consequently has to be detailed out accordingly.

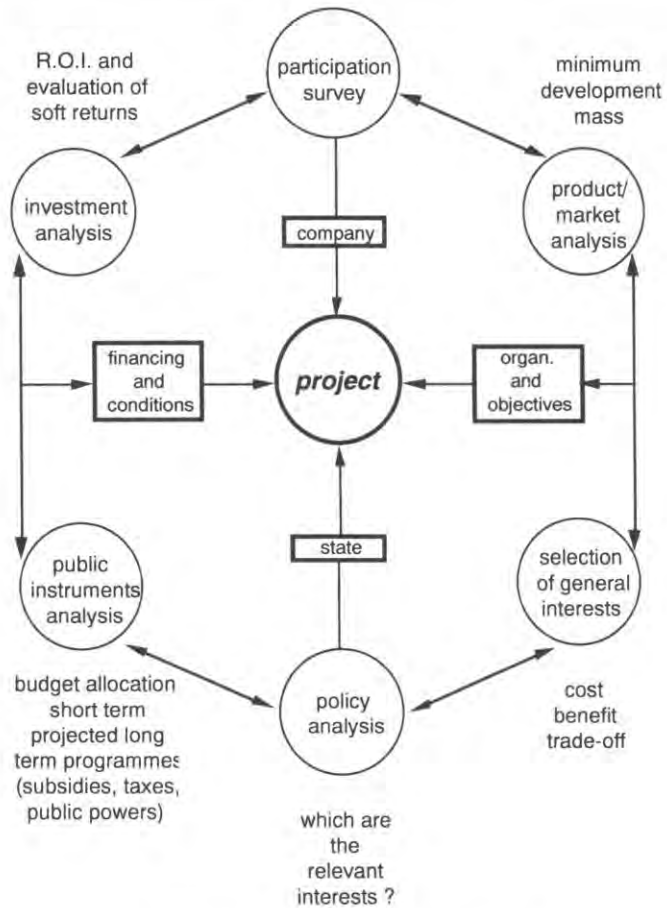


Fig.6 Directional Feasibility Assessment

Therefore no traditional feasibility study exists since *no proper final product, ready for market exchange, does exist yet*: instead a normative feasibility assessment gradually unveils the common result aimed at, which may consist of a new market which a traditional feasibility study could totally miss out. Having approved the concept, it becomes a matter of *testing* the plan with the interest configuration aimed at; after testing, parties decide on their investment and implementation commitments. Having realized the project, it is up to final users to benefit from it. From the discussion on the



directional feasibility assessment we conclude that an important characteristic of PPPs is that they cannot be known as a final product in advance: not *ex hypothesis*. Only *ad experientiam* is the outcome gradually unveiled. Such intricate approach is therefore only feasible for a limited number of complex interest configurations.

### C. Organisation of the partnership

The negotiation process requires a specific PPP organisation structure. Contract formulation and negotiation, not at the level of resources but at the level of the *different* objectives to be *integrated* in the common goal, is essential for a PPP. Especially the contracting of social and non-market returns, and of non-particularities - *intangible* for property rights - are a major challenge. To make negotiations possible, in order to link public benefits and private returns and their trade offs, the PPP requires a semi-public consultative body. This can be a management forum with coordinating responsibility, as in the Schiphol case, or a foundation, as in the Parkland case, or a mixed steering group as in Arnhem. Such a quasi-public or semi-public legal body determines the policy within the project limits, while testing takes place according to usual public decision procedures.

Participants in this quasi-public body are both the government and the long-term interested parties from the private sector. There will be members of local and regional governments on the one hand, and private investors and owners on the other. They must carry the project as they will receive their returns only in the long term, i.e. in the operation phase. In the Parkland Project these are tourist businesses such as the Efteling, Beekse Bergen, Autotron.

Furthermore, in the implementation phase the own *legal* identity of the quasi-public organisation *protects* the project against *short-term* interested parties, such as contractors in an urban development project, or in the operations<sup>1</sup> phase against *inadequate* non-qualitative management. In addition, a legal body will survive political changes, which is an important assurance for the private sector. And last but not least, it enables the

*3rd PPP  
characteristic:  
organisation of  
the partnership*

*The 2-tiers  
structure allows  
to narrow down  
a too broad  
general interest,  
and to broaden a  
too narrow  
private interest  
into one  
common project*

*Long-term  
interested parties  
require  
negotiation  
latitude.....*

*.....which is the  
purpose of the  
quasi-public side  
of the PPP hybrid*

necessary use of public powers to support the development by not allowing concurrent market developments, e.g. elsewhere in the city: *creating entry barriers* in the market in order to disfavour potential free riders and remedy the usual assurance problem to solve the extraordinary problem at hand (see chapter 9).

*The non-profit of the PPP hybrid implements sub-economic components*

But besides a quasi-public which makes the policy, a non-profit organisation is necessary to carry out this policy, since projects that are to be carried out through PPPs contain economic as well as uneconomic components, the latter being socially desirable nevertheless. The *linking* of different funding flows, as mentioned earlier, is therefore necessary. Public expenditures, especially subsidies, which may cover an uneconomic part, should be subjected to public testing as to their 'general interest' content. But companies usually will *not* be prepared to let the spending of their resources and the allocation of costs in a subsidised project be the subject of public discussion. Therefore it is appropriate to charge a "non-profit" organisation with the implementation of the part of the agreed policy, which can then be tested. The non-profit organisation will aim foremost at implementing the uneconomic components, as viewed from the "*standard market*" rationale. The commercial components remain part of the normal private sector tasks.

*The two organizations are contractually linked*

A contract between the non-profit organisation and the project developers may then serve to link the uneconomic and the economic project components. This contract will make it possible to pool the public and private resources, and in addition, to risk-takingly engage both public and private partners. (The term "non-profit" might be refined to "*not-for-profit*" as the tasks of the company consist of providing uneconomic components, for which the pursuit of profit would be unrealistic).

In the not-for-profit agency there is usually a *third* party which has no long-term interest and only the short-term interest of managing the PPP process. In the Arnhem Waterfront project, a project bureau was created whose tasks were to coordinate the project and act as the operating instrument of the steering group.

Secondments to the project bureau take place from specialized private firms (e.g. architects), as well as from municipal services.

Besides the above-mentioned pragmatic reasons for the specific 2 tiers PPP structure there are some more fundamental reasons. Inherent to the *complementarity and/or interdependence* of public and private interests is that *neither* the market nor the state *alone* are able to allocate interests. Negotiation among stakeholders is therefore required, and specifically the *personalistic* contact to link intangibles with hard assets for reasons of permissiveness as shown in chapter 7. Fundamentally, this is the main reason for the organisation structure to be two-tiers. Secondly, there is a body for implementing general infrastructure. This body specifically caters for those common interests which are per se sub-economic but are important for private parties in running their operations. The last body (non-profit) should enter into arrangements with private developers to trigger a revolving fund to support sub-economic returns and intangibles. Third, there is a permanent body (quasi-public) for policy formulation and negotiation at the level of the common goal where different objectives are mediated. The two-tiers structure <sup>123</sup> enables the scope of government to be narrowed from the *equal* provider of the general interest to a specific project commitment, as well as the *narrow* scope of private profit optimizers to be broadened so as to enable them to pursue both intangibles and hard assets by linking sub-economic with economic returns. The 2-tier PPP structure is explained by figure 7.

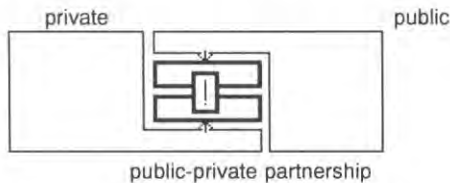


Fig 7 The 2-tier PPP structure

---

<sup>123</sup> Kloppenborg, P.H.L., "Public-private partnerships in the building industry", Lecture at FNV Federation of the Dutch Trade Unions Conference, 26 March 1986.

Property rights  
create  
accountability  
and continuity

The allocation of interests through negotiation requires a commitment of parties in the quasi-public body. An input of resources linked to the *allocation of property rights* by parties serves this purpose. And not only does it serve the purpose of *commitment* to weather adverse times in the bargaining process; it also provides for a fair and independent know-how input, as shown in chapter 11, by a third party which doesn't have a long-term interest but has to successfully cater for the sub-economic common interests of parties. Most important however, is that it enables *accountability* to be allocated to 2 specific organisations spearheaded for the difficult task of catering for non-tangibles and for policy formulation in a *context of differently natured stakeholders*. Hence, accountability can be delegated by public and private parties to well-equipped organisations, whereas 'umbrella' responsibility remains with the original parties.

Without the policy-formulating body being permanent, the partnership would risk falling apart in times of changing political allegiance and/or company board constitution. In other words, *continuation* of the PPP is guaranteed through distinct legal bodies *that bind together the variety of interests* at the level of both means and objectives. The two bodies hence encompass the coherent superposition of interests. A crucial determinant of the organizational form of PPPs is therefore the *market in which parties decide to allocate property rights and accountability* (in the sense of practical tasks responsibility as distinguished from the final 'umbrella' responsibility or authority). Interests can be superimposed by combining resources as follows:

- *without a change, or* }
- *with a shift, or* } in accountability and property
- *with a transfer* } rights

3 different  
models of PPP

3 different models of public-private cooperation therefore exist according to how property rights and accountability are allocated among private/public parties, as shown in figure 8.

### 3 organization models of public-private cooperation

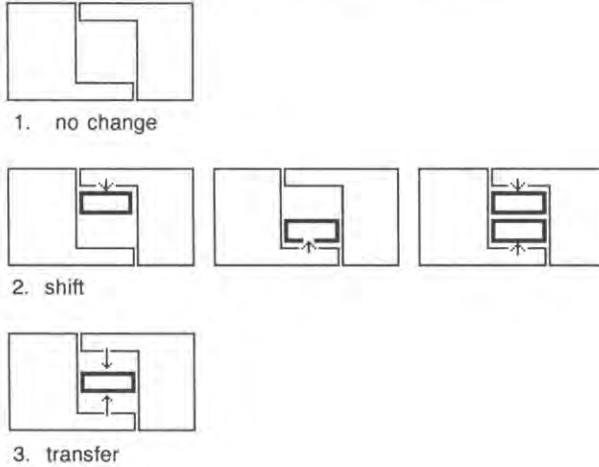


fig. 8, 1. No change, 2. A shift,  
3. A transfer of accountability and property rights

An international description of the different modeling in real life circumstances has been earlier published by the author. *We will hence not describe* the different models but only summarize the main organisational traits in the U.K., France, the Netherlands and USA.

The Urban Development Corporation in the UK and the Etablissement Public d' Aménagement in France are examples of the *agency approach* to local government as shown in chapter 9: *to bundle various resources in one public body specifically for the revitalization of a particular inner city project.* Typically, a project of this kind is too complex to be catered for by municipal services organizations which are engaged in fulfilling their obligations for city needs. Hence, the *focus is on one specific project alone*, with its own separate accountability for achieving a critical development mass which is reinforced through the allocation of land property rights by the municipality to the UDC (or EPA). The value of land plus the *conversion of public subsidies into equity* can enable the UDC to attract private financing instead of

*An international comparison of PPP projects in the UK, France, the Netherlands and the USA shows the different models*

*1-tier model in the UK, the Urban Development Corporation (UDC), and in France, the Etablissement Public d' Aménagement (EPA)*

having to rely on funding by the municipalities. The legal status of the UDC as an entity in its own right (embodying the potential coherent superposition of interests) enhances its continuation in addition to its main advantage of de-politicizing the project at hand. A disadvantage of this approach is the *need* for 'opportunistic planning' with private parties to *demonstrate* the new body's right of existence, particularly at the project's outset. Examples of this vehicle are the London Docklands (LDDC) and the Paris Business Centre La Defense (EPAD).

.....and the  
Groupement d'  
Interet  
Economique  
(GIE)

An example of a private joint-venture of interests are the often-quoted consortia and 'Groupement d' Interet Economique' (GIE) in France. This approach definitely reinforces the private sector powers but it reduces the variety of skills to be tapped because of the public sector's absence. Much criticism on the bundling of private powers often results.

2-tier model in  
the USA

Public-private partnerships as a 2-tier structure with a quasi-public element which *narrows* the general interest down into one project and a not-for-profit element which *broadens* private interests into the sustenance of sub-economic returns are rapidly emerging at present. Examples of this approach are the Baltimore, USA, redevelopment scheme implemented through the quasi-public CC/IH Management Corporation as the public development arm as well as the not-for-profit BEDCO (or CBL) to trigger private initiatives to *sustain* the project as a whole, *both intangibles and hard assets*.

In France

In France, the redevelopment of part of Lyon's inner city<sup>124</sup> has been undertaken by a quasi-public body, the SERL, with shareholdings by 2 local and 1 regional authorities and the Municipalities Bank. The quasi-public group has a long-term interest and a task of *jointly developing ideas*. It has agreed a contractual arrangement with the private Societé Civile Immobiliere (SCI) who will own and sponsor the future project. Hence, property rights

---

<sup>124</sup> Lyon, "Opération Ferrandiere" and "Opération Bianchini-Ferrier", see P.H.L. Kloppenborg, VROM study, Ministry of Housing, The Netherlands

relating to the final product are *jointly* held by both public and private parties.

The development of the Sophia Antipolis Business Centre to induce economic growth in Mediterranean France is an example of public-private partnership: the quasi-public SYMIVAL which is a joint agreement among several municipalities, a Syndicat Mixte and the non-for-profit SAVCOR (G.I.E.) grouping private interests. The former has been transformed in what is now called the D  l  gation du Parc International d'Activit  s de Sophia Antipolis.

In the Netherlands a similar 2-tier structure has been arrived at for the development of the Schiphol Area Distribution Zone: a quasi-public forum for *policy and control*, the Schiphol Area Development Authority. Its members are the N.V. Schiphol Airport, two municipalities and the province of North Holland. The organization responsible for the project implementation is the executive limited company SADC, Schiphol Area Development Company, whose task is to implement both hard and soft objectives, including the selection of final users who are, by the nature of their activities, Schiphol-bound. The quasi-public and the not-for-profit organizations have concluded an agreement with each other. The limited company is further allowed to enter into contracts independently with the developers, thereby linking *risk-taking public funds* with private funding: public-private leverage.

*in the  
Netherlands*

*Accountability* for the development rests with SADC, together with some property rights over land and financial resources (Dfl 50 million in equity) whereas *final responsibility* rests with the SADA who sets policy guidelines.

The 2-tier structure has also been proposed for the Parkland Project to link public and private interests. A quasi-public foundation responsible for coordinating the project has been created as well as the not-for-profit Parkland Company which will function as a normal company but will donate its profits to fund sub-economic activities.



4th PPP-characteristic: change in defining the position of interests (positioning)

Private versus public, long-term versus short-term interests

During the process of joint idea development there are two areas of tension: different cultures, and unusual practices

The identification of a common result will build cohesion and lead to self-contained conflict

D. Change in the definition of interests (positioning)  
The last characteristic is the change in defining the position of parties during the PPP process. As a result of the definition of interests, the division traditionally present in negotiating between governmental parties on the one hand and business parties on the other, will be dissolved and replaced by the distinction between short-term and long-term interested parties.

In broad lines, this process goes as follows: because of their *common frame of reference* with comparable objectives and resources, the government services will be the first to establish a link to each other. Since they communicate intensively, any disputes regarding issues of competence among the services will quickly disappear when a common '*opponent*', the private sector, presents itself. Informally, discussions will have started on alternative vehicles for solving the problem at hand after extensive, but *unsuccessful* studying (know-how development) on the "good solution" which might remedy the externalities. Thereafter, the new *focus will increasingly shift* towards the know-why, the rationale of stakeholders. The interdependence of parties in solving the problem will then have been accepted. Of course, this process works in the same way within the private sector. Participants will put their heads together first, even among competing companies. Typically, the level of conflict due to competences and competition will decrease in both sectors.

In the first phase of the PPP, i.e. during the joint development of ideas, there are often two areas of tension. First, the tension between negotiating parties with different cultures who feel uncomfortable with each other. This negotiation experience builds up the internal cohesion of parties. Secondly, the tension of having to cooperate with competitors in daily practice, both within the government and within the private sector.

Attention will then focus rapidly on the *common factor*: the project. Since each party looks at it from its *own* set of interests, it will gradually become clear *who has what interests and where these lay*.



Conflict will *increase* but remain *manageable* not only because contractually contained (e.g. the letter of intent has already been signed) but also because the direction of conflictual action is towards the selection of a best common result (see chapter 2). Again, *know-why more than know-how* will be at the fore of the discussions. As a result of the process so far, the parties, who do have common interests regardless of their public or private character, will have 'found' each other.

A survey of the different interests and the conflicts between them is therefore particularly valuable in this phase. This survey is best carried out by an independent third party, which then becomes a kind of "*broker in social and economic interests*". Once a *coherent superposition* of various objectives - common goal - has been identified, the positioning of interests will balance out. Increasingly, the implementation and final phase is entered into.

The four features A, B, C, D typically characterize the PPP process as a non standard device for ordering interests. They have been derived from ample case experience of *real-life* urban economics <sup>125</sup>. Numerous PPP policy studies have appeared in the Netherlands in the period 1988-1990, in NICs (Indonesia, for example) and World Bank reports, and in the United States from 1984 on. What is relevant for our study purposes is the addition of the findings of *policy* studies to our findings from *case* experience. An analysis of some selected PPP-studies from the Netherlands, Indonesia, USA and the OECD highlights similar results as to the PPP success factors as shown in figure 9.

*Each sector will gradually focus on the know-why, not the know-how thereby lowering conflict*

*Mediating conflicts and managing the changing positioning of interests is best undertaken by a 3rd party*

*PPP success factors are highlighted in policy studies from the Netherlands, Indonesia and the UK*

---

<sup>125</sup> Case experience comprises the following projects: Schiphol Area Distribution Zone, Gaborone Fairgrounds Botswana, Arnhem Waterfront, Tilburg Sports and Leisure Centre, Rotterdam Waterfront, Province of South Holland Hollandse IJssel. The case studies of Schiphol and Gaborone are available in English, the remaining in Dutch.

# STUDIES

A. Urban development and investment - public and private partnerships, OECD, Paris 1983

B. Overzicht van publiek-private samenwerking in Frankrijk en England, Research for Ministry of Housing VROM & Municipality of Rotterdam, Kloppenberg, May 1987

C. Public-private partnership in the provision of infrastructure for human settlements, International Workshop held in Ciloto, Indonesia, October 19-21 1988

D. Publiek-private samenwerking in de burgerlijke en utiliteitssector, Wolting, van Schijfgaarde, Kloppenberg et al., Research for Ministry of Housing VROM, The Hague 1987

E. Partners voor Vernieuwing, Advies over public-private partnership, Raad van Binnenlands Bestuur, Ministry of Home Affairs, The Hague, 1988

F. Juridisch-bestuurlijke aspecten van publiek-private samenwerking, Noordanus et al., Instituut voor Bouwrecht, The Hague, 1987

G. Publiek-private samenwerking en stedelijke vernieuwing, van Delden et al., Delft 1987

H. Publiek-private samenwerking in Brabant, Vranken en Stortelers, VNO Federation of Dutch Industry, The Hague 1988

I. Public-private partnership, Heidemij Research Paper, INTA Conference, Den Bosch 1988

J. Publiek-private samenwerking in gemeentelijk welrijnsbeleid: pilot project Tilburg, Kloppenbimistry of Welfare, H & Culture, 1990, Tilburg

PPP SUCCESS FACTORS an international comparison										
Studies rank from policy (OECD) to project (Tilburg City)	A	B	C	D	E	F	G	H	I	J
	Success factors rank from initial to final phase									
<b>I Selection of parties</b>										
1. interests' convergence/ complementarity					*			*	*	*
2. government as catalyst not monopolist	*					*				
3. interests are affected by the PPP problem										
4. long-term outweighs short-term interests								*		
<b>II Negotiation</b>										
1. mutual trust			*	*	*	*	*	*	*	*
2. conflict meditation devices		*	*	*	*	*	*	*	*	*
3. cooperation as per phase	*	*	*	*	*	*	*	*	*	*
4. costs/ risks/returns allocation	*	*	*	*	*	*	*	*	*	*
5. explicit stakeholders' analysis			*	*	*	*	*	*	*	*
6. position equality	*	*	*	*	*	*	*	*	*	*
7. joint idea development	*	*	*	*	*	*	*	*	*	*
8. networks, forums (personalistic)	*	*	*	*	*	*	*	*	*	*
9. shared vision and imagination								*	*	*
<b>III Project</b>										
1. nature: function and quality		*	*	*	*	*	*	*	*	*
2. scale		*	*	*	*	*	*	*	*	*
3. phasing			*	*	*	*	*	*	*	*
4. development objective definition					*	*	*	*	*	*
<b>IV Administro-political</b>										
1. consciousness of all parties	*	*	*	*	*	*	*	*	*	*
2. quality of public management	*	*	*	*	*	*	*	*	*	*
3. coordination centre	*	*	*	*	*	*	*	*	*	*
4. administrative latitude	*	*	*	*	*	*	*	*	*	*
5. respect for partners' objectives	*	*	*	*	*	*	*	*	*	*
6. identification of accountability (lead partner)	*	*	*	*	*	*	*	*	*	*
7. long-term political commitment	*	*	*	*	*	*	*	*	*	*
8. targetted extern. communication	*	*	*	*	*	*	*	*	*	*
9. streamlined central/local gvnmt relations	*	*	*	*	*	*	*	*	*	*
10. regulation of locally competing projects	*	*	*	*	*	*	*	*	*	*
11. clear-cut organisation	*	*	*	*	*	*	*	*	*	*
12. platform for internalizing 3rd party interests						*	*	*	*	*
<b>V Legal</b>										
1. contracts gradually enhancing commitment	*	*	*	*	*	*	*	*	*	*
2. phased detailing of contracts	*	*	*	*	*	*	*	*	*	*
3. sanctions defined if negative policy change	*	*	*	*	*	*	*	*	*	*
4. legal power of plan to secure future market	*	*	*	*	*	*	*	*	*	*
5. distinct legal body of PPP	*	*	*	*	*	*	*	*	*	*
6. legislation stimulating private initiative	*	*	*	*	*	*	*	*	*	*

<b>VI Financial</b>									
1. public-private leverage			*					*	*
2. surplus value in project revolving fund	*							*	*
3. financial variables include public powers	*	*			*				*
4. timing of public decision-making is a cost	*				*				
5. targetted public subsidies	*								
6. conversion of public subsidies into equity									
<b>VII Fiscalities</b>									
1. inseparability of financial and organisational issues	*				*				

Fig. 9, PPP Success factors, an international comparison

In the figure we can observe that our 4 PPP characteristics A, B, C and D which we have induced from case experience are in rudimentary form as reflected by the policy studies.

The status of the above research on the PPP as alternative ordering device which differs from the standard market and state devices is that it can serve as an 'induction by experiment' for other areas of the economy where the standard market and state would eventually fail. In other words, this is usually the case in interests configurations which are too complex to be dealt with by the homogeneous market competition and state hierarchy.

The above 4 process characteristics of PPPs are derived from case-experience

This research on PPP functions as 'induction from experiment' to show that there exist interest configurations which are too complex for the homogeneous devices of market competition and state hierarchy



---

## **Part V**

### **Towards the good ordering of interests**

---

### 13. CONCLUSIONS ON ORDERING MIXED INTERESTS

We have observed how mixed interests are of too complex a configuration for an adequate ordering by the market. In chapter 12 public-private-partnerships have served as 'induction by experiment' for the study of how interests could then alternatively be ordered in a context where the market fails: a context of high complexity. From the different dynamics of high complexity emerge alternative procedures for ordering interests. In chapter 8 we hence concluded why the generally favoured instrumental method would *not a priori be most appropriate* in the case of externalities and/of 'civic' households and in a context of non-order. Furthermore, we had earlier observed that among households either market or state were the devices for ordering interests, and that within an individual the ordering faculty could *vary more widely* from instrumental reasoning to intrinsic reasoning. Particularity of interests and/or commensurability in the direction of ordering interests, the two basic premisses for instrumental rationality, do not have to apply at the level of the individual household. Nor does commensurability. In the direction of ordering interests the assumption of self-interest maximization alone was seen as either an *ineffective approach* to solve the problem at hand (externalities) or an *inadequate description* of the motivation behind actual behaviour ('civic' motivation).

Already in chapter 2 we concluded that the interests' structuring device *only holds as long as its premisses are adequate to real life economic behaviour*. Therefore we ought to conclude that if commensurability and particularity, the underlying premisses of market competition and state hierarchy, no longer hold, then they no longer are *a priori* the appropriate devices to remedy externalities and/or to order civically motivated behaviour and/or to be applied in contexts of chaos. Alternative orderings of interests should then be applied.

Although the tradition of mainstream economics positively conceives of externalities as an example of market failure, it has not departed from the modus

*The dynamics of high-complexity require their own inference rules.....*

*.....and market /state do not necessarily apply*

*Mainstream economics has remained focused on correcting the symptoms of market failure without fundamentally altering the modus operandi of the standard devices of market and state*

operandi of standard devices. It remained focused on correcting the symptoms of these failures *without* substantially altering the *modus operandi* of the ordering devices of market and state. An example of the traditional cures are the eight classic types of state interventions as shown in chapter 9. The conversion of the non-personalistic mass market with its invisible hand into a personalistic market with a social fabric which could better match the 'we'-interests inherent to externalities could be one out of different approaches which substantially alters the *modus operandi* of standard interests' ordering devices.

*Traditionally, it proposes as a solution the state in ascendancy to the market*

Traditionally, government intervention with its ordering *gaining ascendancy* over the acts by the affected parties is the approach usually practiced in the case of externalities. A sort of almighty intelligence is then expected of the state to create the Pareto optimum allocation of interests. Such 'intelligence' is implemented by government intervention through state planning (according to Pigou and Viner) or through its improving the cost-benefit allocation through market forces.

*This is an illusory solution since it does not alter the modus operandi*

Our point of view, however, is that the *modus operandi* of state households per se is *as instrumental as* that of private households, albeit their stakes differ: in the one case it concerns the so-called general or public interest, in the other case it concerns a specific or private interest. And our point here is that *if* the externality is caused by the *non-applicability* of commensurability and/or particularity or 'civic' motivation originating from the *non-acceptance* of commensurability and/or particularity, *then the ascendancy* of state power (=government intervention) over market ordering, or the reverse (=privatization), without altering the instrumental *modus operandi* per se is an illusory solution: they are to be considered a change in agents and in roles, but not a change in *modus operandi* with its underlying premisses. What is required instead is a *different* *modus operandi* and consequently a different device for ordering interests. Hence, neither government intervention nor privatization, the standard solutions of mainstream economics, would offer an optimal solution for ordering interests in such situations.



Essential in facing the different dynamics of a situation in which interests are not distinct and mixed, is to select an appropriate rationality and *modus operandi* when ordering such interests. The implication of adopting a different dynamics could include changing to an alternative vehicle or faculty of allocation that does indeed have the aptitude or competence for ordering such mixed interests. If a traditional market or state vehicle *requires for its own functioning* particularity and commensurability, we boldly have to decide *not to use it* for mixed interests which do not comply *by nature* with particularity and commensurability.

Now we may formulate our conclusive position. In the introduction we formulated our stance as follows:

*"....ordering interests towards an optimal and temporary configuration or a coherent superposition of interests, always takes place in a dynamic equilibrium".*

In that case we consider interests as part of a continuum with two extremes: self-interest (I) and general interest (they). This is visualized by the vertical axis of figure 7, chapter 11. The nature of interests being part of a *continuum* implies that the manner of appropriate ordering also varies infinitely. The ground for such covariance is the correspondence relation inherent to the appropriateness of ordering. In addition, we did observe that the coherent superposition itself is again of a unique nature, thereby enriching the variety of potential outcomes. Of this infinite realm which at first *appears* unstructured and chaotic we are able to at least identify two discreet instances of market and state ordering for respectively the homogeneously private interests and homogeneously public interests as shown by the lower lines of figures 8 and 10 in chapter 11.

Our point of departure being a continuum without a prescribed order (chaos) we can consider the two ordering principles of such instances of non-chaos as "fractals" with each their own *modus operandi*. First, self-interest maximisation in the case of market competition; second, general interest maximisation in state hierarchy. These fractals result in a discretionary stability: they are

*What is required is to preserve the nature of mixed interests intact and not compromise it on methodological grounds*

*We introduce a stance which assumes that interests are part of a continuum*

*The continuum appears as chaos*

*Two instances of non-chaos within the continuum are market and state.....*

*.....which testify of fractals, each with its own modus operandi.....*

appropriate to their particular nature of interests, especially their homogeneity. In the originally chaotic continuum they produce instances of dynamic equilibrium among like natured interests. They create incidental non chaos.

The eminent value of this stance is that the present all-pervasive *modus operandi* are made relative as applicable to only two instances of the continuum. Thereby the fundamental relativity of the rationality concept has been adopted: its *inter alia* character, as shown in chapter 7, leads to the quest for appropriate rationality. Appropriateness is then determined by the endless variety in the nature of the driving forces of human action. The latter array of interests is eminently more realistic than the illusion of "two basic particular drives of economic agents". What we choose to avoid is the illusion of the dichotomy between specific (private) and general (public) interests.

.....dynamics,  
critical limits and  
premisses

*The ideological  
argument has  
been replaced by  
the modus  
operandi  
argument in the  
economic debate  
of market and  
state*

*By defining two  
fractals a third  
follows, with its  
own modus  
operandi: mixed  
interests*

The critical limits of the appropriateness of the above two devices have been amply described in chapters 9 and 8; and the typical dynamics (*modus operandi*) of instrumentality is such relatively low complexity contexts of particular and homogeneous interests - like "buying a candy bar" and like "allocating justice" - which have been described in chapters 5 and 6. Also the premisses for instrumental dynamics and for the fractals of market and state device have been amply described in chapter 8. Through descriptions of these factors the degree of chaos in the original continuum has considerably decreased. And within these two instances of non-chaos have evolved two well developed systems of thought of market and state ordering over the last 150 years or so. An important contribution by the interests' continuum stance removes the ideological sting from the economic debate on societal ordering: capitalism or socialism. The ideological argument is here replaced by the *modus operandi* argument.

By defining the critical limits of the two fractals with their own internal "order" we *automatically* also define a third realm of non-order, of chaos: the realm of the continuum in between the two extremes. As to the

appropriate fractal for ordering the realm of mixed interests, we so far can only conclude on the non-appropriateness of the two traditional standard fractals, on two arguments:

1. a functional argument: the premisses of the modus operandi of either fractal (particularity of interests, commensurability in the self-interest direction) are not appropriate for the nature of mixed interests
2. a normative argument: one should prevent to compromise the nature of interests per se on methodological grounds. The latter (smoothness of ordering process) should never have priority over the former

On the basis of these two arguments and in line with our chosen stance of "the ordering of interests as a continuum which results in order as incidental non-chaos" we may formulate our conclusions in figure 1 as follows.

*A fractal is effective in one context, defective in another*

MODI OPERANDI DIFFER		
	<i>chaos</i>	<i>order</i>
<i>complexity</i>	high	low
<i>rationality</i>	intrinsic	instrumental
<i>ordering device</i>	non-market / non-state	state

fig. 1 A different modus operandi follows a paradigm shift (see fig. 2, chp. 4)

This leads us to formulate our conclusive position: *what we choose to prevent is the application of a fractal*<sup>126</sup> *which is inappropriate to the context at hand.* The dynamics of ordering simple, homogeneous and particular interests such as the private one of buying a candy bar is intrinsically different from ordering complex,

*Our stance is therefore to prevent the adoption of one and the same fractal for different complexities*

<sup>126</sup> A fractal is the ordering principle of a system.

heterogeneous and mixed interests like urban development externalities. Applying the market system to the latter may turn out to be as defective to such natured interests as it is effective to the candy bar type of allocation. Hence, a different fractal is here more appropriate for mixed interests. The *modus operandi* as speculatively described in chapter 11 has thereafter practically been investigated from case experience. Other descriptions of 'civic' devices, such as NGOs, voluntary sector initiatives, cooperatives, and their *modi operandi* are evidently required.

*Mainstream economics has not differentiated outside the traditional two fractals.....*

A system of a *low* degree of complexity, e.g. a Taylorian work organization with mechanistic chains requires a different *modus operandi* than a system with a *high* degree of complexity. And what mainstream economics has done so far is *applying one and the same fractal to both systems*. This has led economists for over 50 years to justify government intervention wherever there is a divergence of private costs and benefits from social costs or benefits. Pigou and Viner argued for government systems of taxes and subsidies to correct a market failure.

*.....and has persisted in its traditional iron logic*

Having neatly labelled them 'externalities' thereby indicating that the phenomena could not adequately be dealt with the devices of mainstream economics, economists *persisted* in arguing within the *same organizational logic* as prevalent in mainstream economics. Instead of designing alternative organizational strategies <sup>127</sup> born out of their failure analysis of imperfect markets and state hierarchies <sup>128</sup> (as testified by externalities and the emerging 'civic' economy respectively), and of painstaking *empirical* studies to test propositions from the evidence of real life <sup>129</sup>, economists have not in any sense got out of the *Iron Laws* formulated 200 years ago. Therefore, *inadequate* patterns of organizational logic persisted: in analogy with

---

<sup>127</sup> Hesseling, P., LEARNING STRATEGIES FOR INTERNATIONAL BUSINESS, to be published.

<sup>128</sup> Boulding K.E., LEARNING PROCESS IS THE REAL KEY TO DEVELOPMENT, 1966.

<sup>129</sup> Cheung S.N.S., THE MYTH OF SOCIAL COST.

physics this is like applying Newtonian laws in the realm of relativity theory.

If we seriously study mixed interests and adopt *externality-situations* as 'real'; when we study *value-based* economic behaviour and adopt 'civic' households as 'real'; and when we study utilization value and/or non-order and adopt *the quest for utilization value* as 'real', we ought first to face the *different dynamics* of these situations. Essential in coping with the different dynamics of a situation in which interests are mixed and not distinct - and therefore of a higher complexity - is to *select an appropriate rationality* in ordering such interests as proposed in chapter 7. Ordering interests is of a fundamentally different dynamics here because context, objective and faculty so dramatically change: respectively chaos instead of order; utilization value instead of self-interest; mixed interests instead of hierarchies of objectives, intrinsic rationality besides instrumental rationality.

*Nevertheless a different rationality is required*

As a result of not adopting competition market and externality situations, *self-interest* maximization has traditionally been conceived as the exclusive prime direction of ordering interests (: commensurability) although we know that externalities are *mixed interests*. Thereby *we falsely assume that in the case of externalities particularity would apply*. Game theory has fortunately proved such particularity of self-interest in the case of unplannable interdependences false: non-exclusivity towards the other is not in favour of the self, and cooperative behaviour is instead. To replace the fractal of self-interest with the fractal of utilization value may be more effective because it implies a different *modus operandi* as shown in chapters 5 and 6. The one with more open and inclusive rules of inference is more appropriate in systems of higher complexity since networking is here crucial among different sets of mixed interests in order to arrive at a coherent superposition of interests. We argue in favour of a change in *fractal* over a change of paradigm in economic thinking because self-interest and instrumental rationality remain appropriate for the greater part of allocation problems whilst inappropriate for problems of higher complexity. To

*The one fractal of self-interest maximization has been wrongly applied*

change *universally*, were a change in *paradigm* be applied, would weaken the effective allocation of homogeneous interests like *buying a candy-bar* through a standard market procedures: in cases of low complexity contexts.

*High complexity  
has to be faced*

This is further reinforced by the appropriate rationality argument of chapters 5, 6 and 7 where we adopted the appropriate rationality. Here we concluded that *every* layer or sphere of a complex system has *its own type* of rationality and to project one type, the instrumental over the others, would *compromise the very nature and strength* of the different layers and hence the strength of the system as a whole. Cultivating multi-rationality, through allowing *the experience (or 'incident') of interests meeting interests*, was considered a crucial ability in the quest for utilization value. An a priori commensurable *modus operandi* is therefore what we have to *prevent*.

Now that we *know when and why market and state are inadequate ordering devices*, we have to conceive of an alternative ordering procedure which transcends market forces and state planning. In order to do so we should first approach *the different dynamics of a context of high complexity it in its own right* . Therefore we ought to conceive of devices which indeed avail of alternative *modi operandi*. For that purpose we will summarize our findings of previous analyses shown in chapter 12 and through *induction* of PPP experience relate them to the basic questions facing a different dynamics:

*.....and hence  
focus on its  
dynamics, critical  
limits, premisses,  
practicalities*

1. what do the *dynamics* of higher complexity consist of ?
2. what are the *critical limits* of such contexts ?
3. which *premisses* and/or prerequisites correspond to the prime mover(s) of such contexts ?
4. what are the *practical implications* in projects that remedy real life economic problems, e.g. externalities in urban developments ?

The second question is shorter to answer: what are the critical limits that determine our domains of 'higher complexity dynamics', as described in chapters 8, 9, 11 ?

- the ineffectiveness of the dichotomy of self-interest and general interest in handling the communality of interests
- the twinning of ponderable interests with imponderabilia and non-ponderabilia

Together these two limits define the scope of higher complexity dynamics.

The first question is answered through empirical induction of a subset of high complexity contexts, the allocation of public and private interests in urban settings from which one can derive four essential traits. The success/failure factors observed in the empirical studies of PPPs further guide us towards premisses, practicalities and prerequisites of such complex configurations. We will describe the traits that characterize such dynamics to answer the first question; and then relate to the traits, premisses (3rd question) and practicalities (4th question) respectively. From blending the practical observation with theoretical concepts will emerge a specific *method*, and a *global point of departure* for a theory of ordering interests in high-complexity contexts. This theory will now be described by starting with the first of four main traits which characterize the essence of coping with the different dynamics.

*4 traits  
characterize the  
dynamics of high  
complexity:*

#### 1.1 OVERLAPPING INTERESTS THROUGH MANIFOLD INTERDEPENDENCES RESULT IN A 'WE'-INTEREST.

*1st trait:  
common  
interest .....*

A main trait of higher complexity dynamics is that interests are overlapping and not self contained in the particular sense of the word. Non-particularity therefore exists: *manifold interdependences and unplannable relations among interests prevail resulting in a 3rd interest sphere of 'we' or common interest.* The 'we' interest is the *consistent superposition of diverse and heterogeneous interests and produces a added value which cannot otherwise be obtained, i.e. through market*



or state provisions. Historically, this sphere of interests existed as clan, or city-state and was dealt with in these contexts; nowadays this sphere informally exists as 'civic culture' which is important for public-private-partnerships. The last years since World War II have seen an emerging global economy with the enhanced dichotomy of public and private sectors, of self and general interest.

.....which has  
been brought to  
the fore by the  
sudden increase  
in externalities

The sudden increase in environmental and urban externalities has however brought the 'we' interest to the fore of economic debates. Market exchange in a mass society consisting of atomistic utility-particles which strive for self-interest maximization lacks the intermediary level between 'I' and 'they'. Problems which relate to the sphere of 'we' cannot therefore be solved.

3 practicalities  
follow  
therefrom:

Three practical propositions are implied:

1. joint idea  
development

1. *Joint idea development* should formulate the common goal and define the (negotiation) process of plan development after a stakeholders' analysis has identified the *nature* and *direction* of interests of the project in question. The distributive aspects of the latter should not be forgotten, i.e.:
  - are the interests to be directed towards the self (return on investment and other akin criteria),
  - towards the common undertaking as such (revolving fund and other akin means)
  - towards the general public (taxes and other).

As much as possible the cost allocation centres are to be *traced* among the beneficiaries of the 'we' interest: cost-benefit allocations pro-rata. Here, however, both costs and revenues can be of a *manifold* nature; not strictly monetary, what is required for the purpose of making the market *function*. Since we are of the stance that if interests are identifiable but the good configuration cannot be achieved by the actual societal ordering devices of market and state, we should *first institutionally innovate* and create an *appropriate* device for ordering identified driving forces (: stakeholders'



analysis), before we declare the problem solution of externalities impossible. As to their nature the analysis should also encompass the issue of their tangibility or non-tangibility for property rights as shown in figure 5, chapter 11. In the case of non-tangibility, a bargaining process or alternatives should be used to introduce property rights nevertheless. Some will remain *non-ponderable* from a market conveyability point of view. In that case we should *stretch* the sphere of interests, e.g. in relation to its time dimension. For example, one can incorporate preferences of future users, or include a future generation of mankind in a waste management decision: thereby incorporating their interests in the Net Present Value (NPV) of investment decisions<sup>130</sup>. Such stretching can also relate to the quantity and positioning of stakeholders. *Stretching* interest spheres so as to incorporate the hitherto called non ponderable issues into the platform of decision-making could *enhance* utilization value if more driving forces could be quantitatively addressed without compromising the nature and qualitative cultivation of the original prime movers. Stakeholders' analysis should identify the potential and its conditions for good interest superpositions, and is therefore a point of departure for the joint idea development leading to the good interest configuration.

2. *allocation of risks, returns and resources* among stakeholders are to be agreed upon before the 'we' interest comes into existence. Once agreed, the interests' superposition can be actively pursued and the potency actualized.

2. *prior  
agreement on  
risks allocation*

---

<sup>130</sup> For example, in Dutch environmental law this is achieved by requiring the seller of land to set up a fund as financial security or guarantee against hitherto unknown but potentially identifiable waste damages. Therefore, negative externalities are internalized in the net present value of land through the risk discount. In other words, the future is incorporated in the net present value. See Prof. Dunne's lecture at NMB Amsterdam, 12.5.1989.

3. allocation of property rights within separate legal entity

3. property rights should be allocated by the parties to create the legal entity which incorporates the rights and duties of the 'we' interest. It should have the mandate to contract the hitherto uncontracted effects of mixed interests through bargaining (negotiation) whereby a balance is struck between the 'I', 'we' and 'they' interests. The communality of 'we' as suggested by the 'common' interest of the project is hence *contractually* based and not merely phrased as a good intention. Because property rights are allocated to the pursuit of the common interest, not only the distinctive legal existence of 'we' in its own right is guaranteed but also its decision power or *accountability* of 'we' as shown in chapter 10.

2 prerequisites are needed:

There are two major prerequisites for the establishment of a 'we' interest through an overlap of parties pursuing their own different objectives:

1. joint projects

1. *Incorporation of a legal entity which safeguards interdependence at the means level and implements it at the level of interests.* A concrete project is the sole 'acid-test' for true interdependence. One can only dissect tangible achievements from charming rhetoric about interdependence and overlapping interests from reality, at the concrete level of realistic projects. It is in joint undertakings per se that the 'we' interest, the coherent superposition of interests, is embedded.

2. stakeholder's analysis by a third party

2. *Stakeholders' Analysis by a third party which does not have a long term interest itself.* The analysis should show the nature and direction of the driving forces and not be limited to monetary interests.

2nd trait: ordering coherent superpositions outside market exchange

## 1.2 PERSONALISTIC ORDERING FOR COHERENT SUPERPOSITION OF INTERESTS

The interests we analyse in this study are not market-tradable or else they would not have given rise to 'externalities'. Therefore the *usual methods of*

determining the feasibility of the common result on the basis of market 'exchange' values do not apply. Networking, on the other hand, instead of relying on the exchange of interests and resources in the market place, aims at pooling, linking and superposing all kinds of differently natured interests into a coherent configuration. There is a reason for a different *modus operandi* from the market exchange: only part of the interests can be monetarily quantified and labelled as monetary returns, whereas the other part consists of intangible (social, etc.) returns which are nevertheless of value for which to sacrifice efforts, energy and resources. The reason for the latter is simple: would the returns be of no value at all, then they would not have had received the attention of the parties involved. The market place as an ordering device lacks the intelligence for recognizing consistency among various interests, e.g. combining public powers which do represent a certain market value, with private financial resources to increase feasibility.

Two practical propositions are implied by the above:

a. The *joint formulation of the coherent superposition of heterogeneous resources* (instead of competition in the market place) directs the feasibility of the project because interests can only be partially quantified. The common aim cannot be designed by each party alone *ex hypothesis* from the stance of exchange value (:the distributive aspects of the common result). An alternative stance is required. Its point of departure is a directional feasibility assessment and identification of the end-result required for solving the externality, in other words, the good configuration of interests itself. From the good configuration of interests one reasons backwards in order to identify funding possibilities, both of a monetary and non-monetary kind. This process is the result of 'imagineering' as shown in chapter 6. Because the accent is not on the 'exchange in the market place' but on the communality of solving the problem, funding can be 'in kind' and 'non-monetary' instead of uniquely monetary. Hence,

2 practicalities follow therefrom:

1. *pooling resources through imagineering, instead of competing in the market place*

all kinds of available resources and means are *superimposed* and 'pooled'. It is the potential offered by the *pooling of a greater variety of interests - integrating the diversity of heterogeneous interests* - that makes a more intelligent *modus operandi* superior to the invisible hand of the market device. It is out of the superposition of differently natured resources *intrinsic* to project players that the project becomes feasible, instead of solely on the basis of market exchange values. Early involvement of final users and their specific interests is therefore crucial. Final users determine which contributions are of value to them and which they *intrinsically* (not market instrumentally) can avail of. In urban PPP's, for example, both public financial resources (subsidies and taxes) and public planning powers are invested since those powers have a certain market value which depend on the *direction* in which they are applied. For instance, public planning could make allowance for social housing or alternatively for office developments. Each option would result in different revenues from the sale of land which in turn could be decisive for the feasibility of remedying an urban decline situation. Another example is 'civic' cooperatives for social housing in Baltimore where certain upfront renovation investments are deducted from the total purchase price because replaced by *contributions in kind* by land tenants who invest energy in their leisure time to refurbish their homes according to agreed standards. This *imponderable* contribution outside market exchange is discounted for as *sweat-equity* in the total investment sum.

2. *personalistic ordering instead of abstract market exchange*

b. *Negotiation and bargaining in a personalistic market*, determines the outcome of economic action, not exchange in a non-personalistic, competitive market. Personalistic ordering in bargaining processes enhances the ability of multi-rationality as compared to market ordering. The rate of alertness is also higher in personalistic than market ordering as shown in chapter 5. As a

result, the successful imagineering of a coherent superposition of interests is enhanced. Intrinsic ordering carries a higher problem-solving power because of its capacity to generate manifold relations in ordering differently natured driving forces, a capacity which the competition of market exchange *lacks*. Imagineering the coherent superposition of interests identifies such potential. It consists of making use of complementary markets and requiring additional returns, be they direct - monetary - or indirect, be they 'quality' - from externality situations. Complementary markets and qualitative improvements should remain versed towards the release of extra funds and/or towards the generation of new interests such that the feasibility of the coherent superposition of interests increases.

Parties should not shy away from tough bargaining over the distribution of benefits from the partnerships: as long as the aim at making the *total* partnership package (i.e. the coherent superposition of interests) sufficiently attractive to provide an incentive for private compliance with the common targetting of benefits. Examples of PPPs for job creation show that creating jobs out of commercial revitalization can be successfully focused on low-income and handicapped populations if the *total* re-investment package is sufficiently lucrative to the private sector. Similarly, commercial mortgage loans can be offered to low and moderate income residents at reduced rates if the overall partnership package includes a substantial proportion of more lucrative or less risky loans.

The prerequisites for intrinsic, personalistic ordering are as follows:

1. Creation of a personalistic market, i.e. platforms of multi-rationality with maximum latitude for informal networking and interests encounters. Example of a personalistic market are public-

*3 prerequisites are needed:*

1. *personalistic platform instead of mass market*

private urban development committees and the like.

2. *imagineers as third party*

2. The presence of 'imagineers' or third parties with the sole task of *networking* among parties, *managing* the process of joint idea development and supplying the required *know-how* in the bargaining process. This is an intermediary broker of interests which has no decision powers as to the know-why of allocating resources. Their point of departure is the formulation of a directional feasibility assessment.

3. *prevention of competitive forces among partners*

3. Prevention of competition and competitive pressures among private parties which could eventually block the co-operative attitude. This is necessary for bridging the assurance gap and overcoming the free-rider effects which characterize externalities as shown in chapter 8. Such is prevented through the construction of a basic modicum of mutual trust and commitment between parties: *attitudes, behaviour and culture are as important as formal agreements.*

3rd trait:  
*commitment to communality of aims since objectives are not commensurable*

### 1.3 PROCESS COMMITMENT THROUGH COMMUNALITY OF AIMS

In high complexity dynamics there is no such *external correspondence* of means to ends as is the case in a well-ordered mechanistic universe. Commensurability in societal utility or the general good is absent. Instead stakeholders may *assume* certain added value combinations to be consistent superpositions of interests, resources and objectives: communality of interests *may* exist. Mutual acceptance of communality *is then of prime* importance. This is because the common aim has first priority among parties that pursue their own objectives whilst respecting the identities, responsibilities and objectives of the other parties. Essentially, stakeholders and their interests *differ* and will *always* do so; it is thanks to the diversity of co-operating parties that a added value is created.

It should be noted that an interests *superposition* with different but complementary goals is quite different from the synthesis of interests into a new interest shown in chapter 5 in which the parties' objectives are amalgamated. The latter is the case in ordinary joint ventures. Parties in a joint-venture differ with respect to resources and instruments, not in objectives which are shared. A superposition is as different from a synthesis as a partnership is different from a joint-venture. Whereas the latter remains a 'joint' interest per se, i.e. a '*we*' interest in its own right, the latter can be perceived as a newly formed particular self-interest. In this respect the superposition among different convergent goals which occurs in a partnership contrasts with the synthesis of amalgamated goals in a joint-venture.

Another contrast is the acceptance of a communality of diverse interests and the a priori commensurability implied by what is assumed, ex hypothesis, as private interest or politically decided as the public interest in standard markets and state hierarchies. Instead of *pre-conceived* utility particles exchangeable in the market place, communality requires the step-by-step *unveiling* of the good interest configuration among parties: the good configuration cannot be known in advance. Or, in other words, what is of common interest emerges from the configuration itself (intrinsically) and such plan cannot be formulated by either party in advance: hence, no "*a priori* priorities". Because the parties involved are to cooperate without knowing the final common result - apart from the shared problem definition and intent to remedy the problem - the *process* of reaching consensus on the appropriate superposition of interests starts with the acceptance of communality. Through the sound management of such process explicit *power sharing* is possible. This capacity is of tantamount importance.

It is in the process of joint idea development that the good interest configuration is gradually unveiled and the outcome strongly depends on the selected parties from the outset. Their potential added values depends on the "...specifically chosen environment..." (see chapter 1) or the selected parties. The quintessence of utilization value is *selection*: which and with whom to combine interests.



A sound appraisal of goal convergence among parties besides the acceptance of communality is therefore a first step of the stakeholders' analysis. If goals potentially combine then the parties could fruitfully be selected and assembled in the platform which aims at actualizing the hidden potential of interests' superposition.

3 practicalities  
follow therefrom:

1. utilization  
value is more  
important than  
self-interest  
maximization

2. cyclic  
networking of  
know-how and  
know-why

Three practical propositions follow therefrom:

1. Parties have to be *aware* of the importance of jointly pursuing the common goal. A commitment to the common result of economic action has priority over the distribution of the results.
2. *The acceptance of a process of joint idea development* to gradually unveil the good interest configuration. Combining interests takes place in a personalistic forum or platform of decision-makers instead of through market exchange. Usually, the starting point of the joint development of ideas are informal meetings among interested parties. The first orientation should be problem defining, not problem solving. To prevent the distortion of the unifying conception that integrates the diverse interests by the a priori priorities of either party, a *clear-cut separation* of know-how and knowledge has to be achieved on the one hand, and of know-why and decision-making powers over the interests at stake on the other as shown in figure 3, chapter 11. Cyclic networking of know-how and know-why should enable the gradual narrowing down of the broad idea. Remedying a problem situation then takes place through a *step-by-step* agreement alongside a phase-by-phase process. 3 phases and agreements can be distinguished: the broad idea is narrowed down to a concept (1) to which the parties can assign their intent (2) and therefrom into a concrete project with planning and investment specifications ready for implementation (3). Contracts should be agreed at each phase in order to legally bind the diverse interests together in an orderly fashion. Without proper phasing and contractual agreement per



phase, the intended superposition of interests runs the risk of remaining a "loose raft drifting on the waves" of changing political and business tides.

3. Legalities - contracting and property rights - deserve special attention. In the case of interests communality one can only observe the suspected and intuitively agreed communality *per se*, not the end product as such of which the communality concretely consists of. The common result cannot be defined or tested on the market: no *a priori* plan is available <sup>131</sup>, nor an *ante-rem* unifying conception as shown in chapter 9. Contractual agreement can however be reached *on the process* <sup>132</sup>, i.e. the framework within which joint efforts are pursued. *Process* agreement can be achieved, *material* agreement only step by step, as per the result of each phase.

3. contracts to limit chaos by stipulating what not to do

With a *non-delineable* common result the material good *remains non-particular* so that property rights *cannot* as yet be allocated. Usually the output of joint efforts is in tangible albeit future items which can indeed be estimated. Therefore the common result is *delineable* for property rights: it is ponderable. In high complexity systems the common result cannot be defined although it can be mapped out through cooperation <sup>133</sup>. The output is part of the process of interests networking. Therefore, the output is not tangible for property rights and hence it is *per se imponderable*. Only gradually it becomes ponderable as the coherent superposition of interests is unveiled <sup>134</sup>.

---

<sup>131</sup> For public-private-partnerships see: "Rechtspersonen en publiek-private samenwerking", Prof. Mr. W.J. Slagter and Mr. K.J. Slump, *Bouwrecht* '88, Nr. 9, p. 633.

<sup>132</sup> Hamming J.W., *Juridische aspecten van een PPP*, IRR-Conference Amsterdam, 16-17 January 1989.

<sup>133</sup> Hamming, *Op. Cit.*

<sup>134</sup> Mishan, page 296 of Block, Brennan & Elzinga.

An implication of the fact that the material common result or superposition of interests during the greater part of the idea development process remains unknown is the fact that contracts during the process cannot be materially and ostensibly stipulated. However, the joint idea development process requires a rapid action to identify 'what not to do' in order to prevent the parties from not proceeding at all because of the tendency to 'wandering around' in the chaos. It is on *chaos limitation* that the legalities should focus. By *contractually agreeing what not to do* (non ostensive contract) in material and process terms, the parties succeed in limiting the potential chaos of interests - and in making a committed start towards gradually identifying a fruitful superposition of their interests. Commitment is further reinforced by integrating *penalty clauses*<sup>135</sup> per each phase in case parties revise their stance on the communality of interests. Such penalty clauses can either be built on a commitment to *results* (e.g. urban development construction) or on a commitment to *efforts* (e.g. in waste management). The choice depends respectively on either the availability of a market where results could be tested and traded, or on the willingness to alleviate a problem situation<sup>136</sup>. Process agreement, non-ostensive contracts and penalty clauses form a good start for the legalities which are well fitted to build trust among various parties and which are necessary to jointly map out the unifying superposition of interests. In the end it is on the basis of mutual trust that parties dare decide on the priority of creating a sound superposition of interests over the application of property rights early in the process. *The property rights cannot anyhow function to facilitate market exchange for the 'we' interest is intrinsic to the selected parties themselves and cannot be traded away.*

---

<sup>135</sup> Hamming, Op. Cit.

<sup>136</sup> Public private cooperation even for the environment, Heidemij Holding, Arnhem, 1989.

The prerequisites for a process commitment through the communality of different objectives are as follows:

1. The convergence of different objectives per se should be accepted. This is a *conditio sine qua non* for deciding on jointly pursuing the hidden potential of a superposition of diverse interests in their own right. *The communality of interests and the convergence of goals should be translated into the complementarity of resources and means.* From this first prerequisite is derived the need for the parties to perform a proper *stakeholders' analysis* which indicates why or in what direction it is for the parties worth pursuing a common aim. *Households pursuing utilization value* deliberately identify and select stakeholders with whom convergence of goals and complementarity of means is to be achieved. The rate of alertness (multi-rationality), transition ability (in different interest webs) and strategic positioning (propinquity of interests) are *key assets for those households which are tuned to identify the communality of interests* as shown in chapter 5. Identification is based on utilization value, not on self-interest maximization by one party. Therefore such survey can be performed by *third parties*. Apart from identifying the communality of interests, the convergence of objectives and complementarity of resources and means, a stakeholders' analysis is directional for *selection*; parties themselves define their stance by deciding whether or not to enter a platform for the superposition of their interests on the suggestion of a third party. Eventually public authorities <sup>137</sup> in good contact with local business players could fulfil this catalysing role. Communality of interests is intrinsic to externalities whereas convergence of goals of public and private parties usually is

2 prerequisites are needed:

1. acceptance of the convergence of different goals, and the complementarity of resources

---

<sup>137</sup> See the unpublished Policy Paper for the Provincie Zuid Holland, "Public-Private-Partnerships and the role of regional public authorities", P.H.L. Kloppenborg, 1988 and Kouwenhoven V.P. & van Woes M.J.F. "Moet de Provincie PPP entameren", TvO 4.8.1988.

obstructed through the dichotomy of public or private sectors. To overcome such obstruction third parties have a role to play. Their added value is one of 'imagineering' as we have seen earlier.

2. *understanding the difference between the pursuit of utilization value and self-interest maximization*

2. *Understanding* the difference between pursuing utilization value as compared to the quest for maximizing a particular (self-) interest, with the resulting vision of a different approach and methodology, is a prerequisite of a process-commitment instead of a commitment to a particular return. From such intellectual understanding can be derived the need for acquaintance and power-sharing from the first phase of project identification instead of either party formulating their own project approach in advance. Discussions then start with a focus on the views of each stakeholder on the nature, cause and background of the project or problem definition. Therefrom a process is to be agreed upon for the arrival at a coherent superposition of interests in order to solve the problem, not to reach the final result itself. Commitment to a framework of joint efforts with the gradual phase-by-phase completion of the material aspects of the common result, instead of a concrete end-product which is possible only if the parties have the vision (intelligence) to step beyond their own objectives in order to arrive first at a common goal. Such understanding is therefore crucial for a successful performance of households in high complexity contexts.

4th trait:  
*propinquity and positioning of interests determine success....*

#### 1.4 POSITIONING OF LOCATION AND INTEREST IN CONTEXT

The location of an interest in its context and especially its positioning towards other interests is a critical success factor for economic action. The importance of positioning is particularly great if utilization value is its motor. In chapter 5 its importance was illustrated by means of the Finkelstein experiment. Here and in other places <sup>138</sup> it has been argued that the Law of Equal

---

<sup>138</sup> Scientific American, February 1990.

Distribution does not apply in ordering interests in a high complexity context and in remedying externality situations. An overall overview then cannot be obtained so that the *sheer availability and presence* of a specific interest, however coincidental that may be, become factors of success in economic performance. In real life cases of public private partnerships the very presence of parties in informal networks is known to be an important factor for playing a role in solving urban externalities. But not only presence and availability, but also *the way in which* one is present (positioning) and the way in which one is available (availability), that is the *positioning and availability* of interests amidst other interests will determine whether or not a household has a role to play. The quintessence here is that in high complexity systems the positioning and availability of different interests are to be oriented towards optimizing the common result: intrinsic final user interests precede (priority-wise) the driving forces which are instrumental in achieving that common result. Or, in other words, long-term interests precede short-term interests. The diversity of stakes is per definition a trait of utilization value and coherent superposition; it brings with it a different positioning.

In the example of PPPs for urban development a construction company with its interest in realizing a building should position itself differently from a real estate investor. The first has a short-term stake (e.g. 1 year) in implementing a project (implementation phase) whereas the latter has a long-term stake (e.g. 20 years) in managing and letting the project to final users (user phase). In the platform for joint idea development the builder should position itself as having an instrumental interest of service to the final user's or intrinsic interests. Because it implies a loss of bargaining power, builders without 'understanding and vision' do strive for a say in the ordering of final users' interests which results in a perception of opportunistic and self-interested behaviour by other parties in the platform <sup>139</sup>. Since self-interest (:bargaining position) is prime, as practised among utilization value optimizers, it allows, for a one-occasion

---

<sup>139</sup> Kloppenborg P.H.L., "PPP: the pragmatic vehicle of small is beautiful" in *Bouwbelangen*, 9 oktober 1987.

game only (see chapter 1), this will result in the loss of the builder's position altogether.

.....3 success  
factors contribute  
to a good choice  
of contexts

Three main factors characterize households which are good at context location, positioning and availability:

- transition ability, i.e. in different webs of interests (networks)
- rate of alertness, i.e. the degree of potential directional correlations among various interests through the capacity for multi-rationality
- strategic positioning both in time and in place to achieve the propinquity of interests

1 practicality  
follows  
therefrom:

These factors are all described in chapter 5. They contribute to a good *context-choice*: the selection by a household of the constellation conducive to fruitful alliances with other interests. A practical proposition is implied therefrom:

1. positioning of  
decision-makers  
in various  
platforms

1. *Presence of decision-makers* in platforms for tackling externalities and in networks which aim at utilization value. Leaders can fruitfully cultivate a context which exhibits a variety of interests since they have the decision mandate to position their organizations within the constellation at hand. If there is no constellation, then concerted leadership can create strata for interests' encounters such as urban development platforms (e.g. Marketing Club). Leadership in such platforms is indispensable. *Communicating* its presence is highly effective for mobilizing extra interests and resources and *for building a critical mass*.

2 prerequisites  
are needed:

The prerequisites for context location, positioning and availability are therefore as follows:

1. openness for  
various modi  
operandi

1. capacity for multi-rationality, i.e. the openness for *variety in combining ability, according to more than one set of inference laws*: use of different faculties such as enthusiasm, imagination and intelligence. Instrumental rationality as well as intrinsic rationality (chapter 6) are required to order coherent superpositions of interests in highly

complex contexts. They are the contingent requirements that determine the appropriateness of one rationality over the other (chapter 7).

2. *availability of sufficient resources in different interests webs* without direct benefit to the household. Selection about where to be and where not to be is the quintessence. Initial seed financing can also be a prerequisite for successfully cultivating the strata for interests' encounters, such as those provided by the Enterprise Foundation, Civic Venture and Local Initiatives Support Corporation in the USA. They provide financial frameworks for local partnerships formation.

2. *selection capacity*

The premisses, prerequisites and practicalities described above are primarily based on the empirical studies of 1983-1990. In chapter 12 we have shown how they are embedded in real life cases of the 'civic' economy: public-private-partnerships for remedying externality situations with an accent on urban development externalities.

As a conclusion of this chapter we summarize the dynamics of high complexity economic systems below and in figure 2:

1. mixed '*we*' interests which cannot be dissected in a self-interest (I) and general interest (they) components because of intricate interdependences and complementarities;
2. *intrinsic ordering* by partners outside the market exchange because the *invisible hand* lacks the intelligence to combine effectively the diversity of differently natured resources and interests ("pooling is better than exchanging");
3. communality of interests instead of a final product agreement which cannot be known in

advance forces parties to a process commitment instead. This commitment consists of a joint idea development to gradually achieve a coherent superposition of interests;

4. *positioning* is critical because high complexity systems are non-state determined. It is the *propinquity* of interests within networks which lead to potential directional correlations and that consequently will determine the common result (=coherent superposition)



COMPLEX ECONOMY		
Traits	Practicalities	Prerequisites
1. common interest	1. joint idea development	1. joint projects
	2. prior agreement on risk allocation	2. stakeholders' analysis by a third party
	3. allocation of property rights within separate legal entities	
2. ordering interests into a coherent superposition	1. pooling resources through imagineering instead of competing in the market place	1. personalistic platform instead of mass market
	2. personalistic ordering of interests instead of abstract market exchange	2. imagineers as third party
		3. prevention of competition among partners
3. commitment to communality of aims since objectives are not commensurable	1. utilization value is more important than self-interest maximization	1. acceptance of goals convergence and complementarity of resources
	2. cyclic networking of know-how and know-why	2. understanding the difference between the pursuit of utilization value and self-interest-maximization
	3. chaos limitation by contractually stipulating what not to do	
4. propinquity and positioning of interests determine success	1. positioning of decision-makers in various platforms	1. openness for various modi operandi
		2. selection capacity

fig. 2 Overview of ordering interests in complex economic systems

Now we are at the end of this theoretical survey whose conclusions are summarized in figure 3.

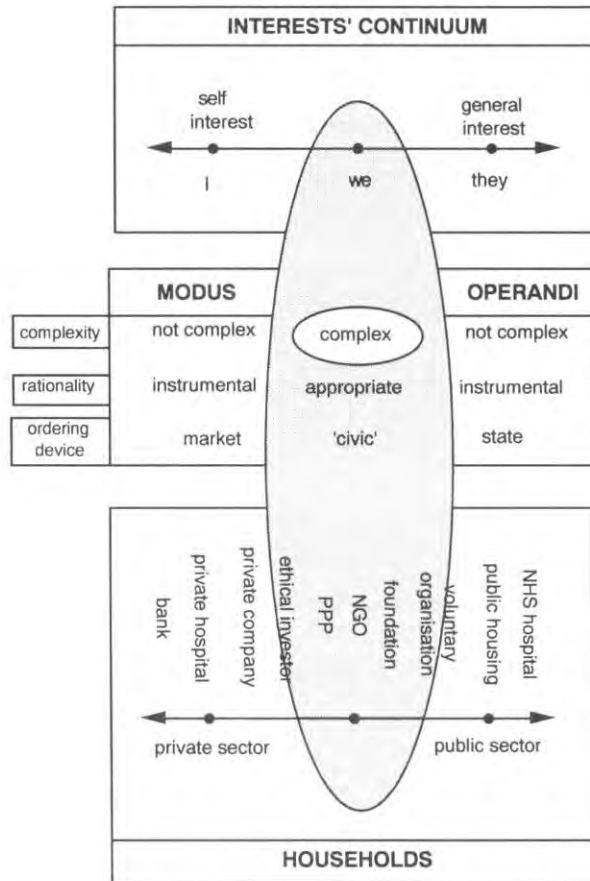


fig. 3 Economy as the good ordering of interests: different households should adopt different modi operandi which are appropriate to the interests to be ordered

The above guidelines for ordering interests in complex configurations have been induced from the case-experience of partnerships between public and private interests for remedying urban externalities. The theory of this chapter together with the practical methodology of ordering towards utilization value in chapter 11, may offer a valuable insight as well as a practical instrument for a 'civic' approach required when market or state fail.

We hope to have convinced you, the reader of this study, that either state or market is not always the most effective device for allocating interests. Typically, neither can intelligently combine the diversity of interests and hence cannot synthesize complexity. We saw that self-interest maximization is here dysfunctional. Furthermore, we concluded that a shift in rationality is required: from merely instrumental to appropriate rationality per se, in line with the nature of the interests at stake: they are all part of a continuum. To describe such economic behaviour as self-interest maximization would nevertheless obscure the intentional change in modus operandi inherent to overlapping interests. This is always the case when interdependence per se is a fact. It is such change in rationality away from the market's standard which is quintessential to the good ordering of interests in high complexity contexts. We know that such settings of mixed interests, as shown in figure 1 chapter 2, will increasingly be part of the wealth of our economies. Therefore, the quest for utilization value and the study of its mechanics (as summarised on the next page) are quintessential for the future well-being of our economies.

*The quest for utilization value is quintessential for the welfare of our future economies as interests are increasingly mixed*

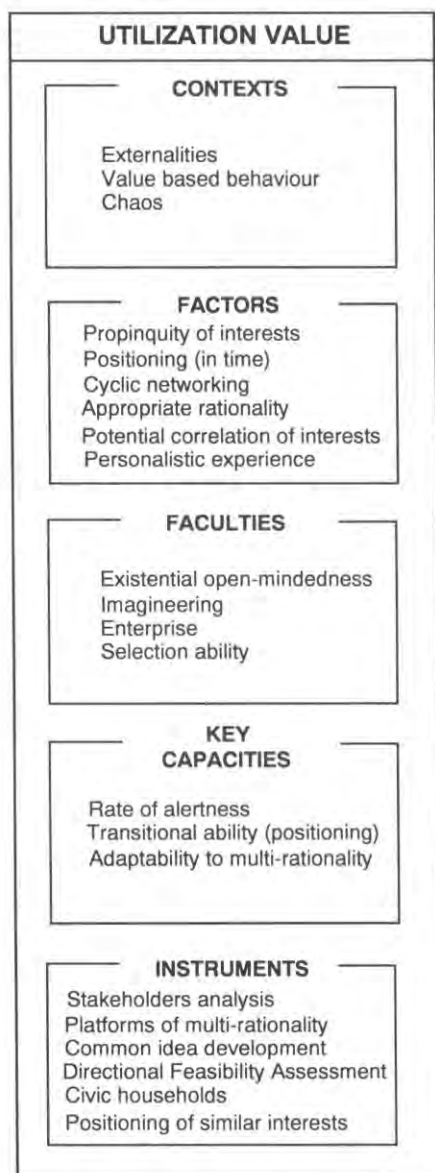


fig. 4 The operational mechanics of utilization value



## OVERVIEW AND PROPOSITIONAL INVENTORY

<b>Part I</b>	9
<b>On utilization value</b>	9
<b>1. THE QUEST FOR UTILIZATION VALUE</b>	11
Economy aims at orchestrating the interests of households	11
Interests defined	11
In this endeavour a key element is the propinquity of interests	11
Propinquity requires 'existential open-mindedness'.....	12
.....in order to identify potentially fruitful combinations of interests	12
Utilization value defined	13
Propinquity of interests is as important as ownership of resources	13
"I" possess or "We" create	14
The pursuit of utilization value being prior to the pursuit of self-interest does not compromise the latter, whereas the reverse does	14
A different priority results in a different <i>modus operandi</i> of economic behaviour	15
<b>2. THE ORDERING OF INTERESTS</b>	17
Method for ordering interests towards utilization value: the inductive part	17
What interests do stakeholders have ?	17
What constitutes specific added value ?	17
What is the proper interests' ordering process ?	18
The answers to the questions raised by the interests' analysis are themselves the premisses underlying the ordering devices.....	19
Hence, interests can be ordered through a variety of different vehicles	19
These vehicles function as long as their premisses hold	19
Increasingly, overlapping interests reinforce the need for different devices.....	19
.....for example, overlaps of public and private interests require public-private-partnerships	20
Premises are not neutral but ethically and functionally loaded	20
The premisses underlying different ordering devices should match the premisses of the added values sought for	21
The choice of an ordering device is determined by the prime added value sought for, not the reverse	22
<b>3. WILL AND RATIONALITY</b>	
The will is the prime mover in ordering interests	25
Generally, we only know the direction of our will and its faculties	25

At some moments of choice, we are fully conscious of the cause or end of our decision as well as of its faculties. These are the instances of conscious will	25
At rarer moments we are also conscious of different directions in which we can proceed. These are the instances of rational choice: either intrinsic or instrumental	26
The quest for the best combination of interests.....	26
.....with other households can be achieved through market exchange	26
Exchange implies a change in the individual's <i>modus operandi</i> because of the premisses which underlie the market device.....	27
3 observations on the market exchange process	27
1.Objective communication.....	28
.....which requires the functioning of the individual household to change to a less complex form.....	28
.....to be consistent with the homogeneity of the market	28
Hence, the actualization of interests outside the market and state mechanisms is justified whenever intrinsic motives, such as values, are at stake	28
2. Tangibility to property rights for monetary expression.....	28
.....reduces the household's propensity towards intangible interests	29
3. No exchange value for intrinsic interests and non-ponderabilia	29
On conclusion, the scope of rationality used in economics has to be broadened for a balanced allocation of both instrumental and intrinsic interests	30
<b>Part II</b>	33
<b>On rationality</b>	33
<b>4. A CLOSER LOOK AT RATIONALITY IN ORDERING INTERESTS.</b>	35
The rationality found in nature can be applied to man	35
Rational method is characterized by the coexistence of 5 characteristics	35
The mechanistic method is characterized by linear means-end hierarchy.....	36
.....but hierarchic ordering is sometimes inappropriate	36
Enter a paradigm shift: from stable order to chaos.....	36
.....which requires the perception of stable order as incidental non-chaos	37
Mechanistic ordering should also be replaced by stochastic ordering	37
The set of inference rules are determined by the agent's aim and faculty	38
Rationality is therefore ultimately relative:.....	39
.....different kinds of rationality can co-exist.....	39
.....and some suit specific problems more appropriately than others	39
Mainstream economics applies only one rationality of behaviour.....	40

....which, from a utilitarian perspective has been refined to 'the realization of a goal with minimum effort and maximum satisfaction'.....	40
.....and further refined to self-interest maximization	40
With this refinement mainstream economics was complete as a method	41
If the economic agent aims not at self-interest but at utilization value, then a change in his modus operandi is required	42
With utilization value rationality is localized	43
Utilization value defines rationality of behaviour differently from mainstream economics	43
Different modi operandi are characterized by different rules of inference	44
 <b>5. RULES OF INFERENCE IN ORDER AND CHAOS:</b>	
<b>PARTICULARITY AND PROCESS</b>	47
The will determines how reason deducts	47
Deduction requires a minimum set of inference rules, of which.....	48
.....the very minimum is the Law of Non-Contradiction	48
Mainstream economics deals with self-interest by twinning the laws of Non-Contradiction with Double Negation.....	48
.....this is rejected with utilization value	49
Any choice of inference rules in addition to the minimum base is arbitrary and normative.....	49
.....and should be based on the Law of Correspondence	49
The Law of Excluded Middle	49
Mainstream economics accepts the law of Excluded Middle, 'civic' economics rejects it	49
Excluded middle presupposes particularity	50
If particularity does not apply the law of Excluded Middle itself becomes arbitrary.....	50
.....and leads to ineffectiveness in dealing with mixed interests (=externalities)	51
Particularity only applies in atomistic order, not in chaos	51
In "ordering chaos" the basic building block of the universe is no longer self-interest but the "ordering process".....	51
.....and the direction of this process can be utilization value	52
The interdependence of context and interests requires cyclical networking, not classic linearity	53
Interests undergo a transition through participants' positioning in networks	53
Personalistic experience allows for different inference rules in ordering chaos	53
Through a different superposition of interests the common result changes	54
The search for coherent superpositions of interests through joint idea development is at the core of the quest for utilization value.....	55



Two of the three key capacities in the quest for utilization value are the transitional ability of interests and the adaptability to multi-rationality	55
In producing the common result propinquity of interests is important. Hence a household's positioning is important, too	56
In positioning interests the Law of Distributivity is rejected	57
The appropriate positioning of interests is important in tackling externalities and, especially, the free-rider problem	58
In order to solve externalities the law of Excluded Middle is also to be rejected	58
The Pareto Optimum cannot often be computed.....	58
.....and therefore no calculation but negotiation	58
Coase's negotiation approach is a personalistic experience which allows for multi-rationality.	59
This is more permissive than Pigou's formalized calculation	60
Formalization limits the permissiveness in selecting inference rules.....	60
.....whereas economic agents are in fact in a position to choose different inference rules, apart from the basic Law of Non-contradiction	61
Hence, personalistic experience is superior to formalization if multi-rationality is required	61
Why is permissiveness superior to selectivity ?	61
From systems analysis selectivity is known to be superior only if a system is state-determined	61
But an "open" system is not state-determined.....	62
.....hence non-predictable.....	62
.....and therefore non-particular	62
Hence formalization cannot outperform the permissiveness of choosing inference rules - which is the hallmark of personalistic experience	63
A good superposition of interests therefore cannot be defined ante experientiam	63
Different inference rules imply a different logic suitable to new models of economic behaviour	64
The third key capacity is the rate of alertness, defined as the degree of potential directional correlations	64
Maximizing degrees of potential directional correlations is important	65
The quest for quality requires multi-rationality but welfare economics operates with classic rationality alone: this causes serious problems	65
 <b>6. INSTRUMENTAL RATIONALITY AND INTRINSIC RATIONALITY</b>	 69
Intrinsic rationality essentially consists of the inference rules of Non-Contradiction and Correspondence	70
The Law of Correspondence applied to external goods leads to means-end relations	70
.....but it leads to relations of another kind in the case of intrinsic interests	70

Such different relations require other faculties	
.....intuition, inspiration, enthusiasm.....	71
.....which are important driving forces for economic action	71
In the case of intrinsic interests cause and effect coincide.....	71
.....implying a non-hierarchical ordering	71
Intrinsic rationality rejects the Excluded Middle.....	72
.....and accepts multi-dimensional rules of inference (non-binary logic)	72
.....which are appropriate to the very nature of values	72
The approach of intrinsic rationality is different: not hierarchical but directional of 'what not to do'.....	73
.....as well as potential correlations of differently natured interests to create	74
In this pursuit the rate of alertness is a key concept	74
Mainstream economics does not appropriately address intrinsic interests.....	75
.....notwithstanding the fact that superposing interests of different natures , i.e. intrinsic with instrumental, proves most valuable	75
Intrinsic rationality summarized	76
Imagineering defined	77
Since we often cannot know our ends in advance of economic action, imagination is required.....	77
.....but economics is deficient without concepts such as imagination which allows for multi-rationality	77
Instrumental rationality also consists of the inference rules of Non-Contradiction and Correspondence	77
But through the premiss of utility, Correspondence leads to hierarchical relations.....	78
.....which is necessarily all-pervasive.....	78
.....when associated with self-interest as the one single direction of all economic activity	78
Consistency of this direction is the fulcrum of mainstream economic thinking.....	78
.....and it is achieved through twinning the Excluded Middle and Double Negation	78
Hence, economic action is directed towards either 'I' or 'non-I' (= 'they') thereby excluding the direction of 'we' (community) interests	79
The 'we' interest is instead dissected into an 'I' component and a 'they' component.....	79
.....and even non self-interested behaviour is translated to satisfaction of the self through altruistic behaviour	79
Self-interest maximization has resulted in the maximization of the general interest on the premiss of consistency of behaviour	80
From this premiss the exclusion of mixed interests was normatively acceptable	80
We conclude that values can also not be dealt with by instrumental rationality.....	81
.....because it deforms these primary driving forces	81

A comparison of instrumental and intrinsic rationalities: similarities and differences	82
Instrumental rationality alone is sometimes inadequate because it oversimplifies the complexities of economic life	82
Therefore we adopt the inter alia character of rationality.....	83
.....not applied by mainstream economics	83
.....and as a consequence we accept that we have to answer the question of which rationality is appropriate each time afresh	83
<b>7. APPROPRIATE RATIONALITY: CONTEXT, OBJECTIVE AND FACULTY</b>	85
Appropriate rationality depends on 3 variables: context, objective and faculty	85
Multi-rationality occurs when different faculties are simultaneously needed	85
Blending different rationalities is hence an important ability.....	86
.....on which the quality of the common results depends	86
The key for such adaptability to multi-rationality is the simultaneous recognition of the 3 variables	86
Usually priority is unduly given to context ("stable order") whilst objective and faculty are assigned to second place	87
This needs correction.....	87
.....by striking a balance among context, objective and faculty in each case	87
Hence, no a priori priority is to be assigned to any one of the 3 variables.....	88
.....although mainstream economics does	88
Utilization value instead relies solely on the direction given by the stakeholders' analysis, through induction from reality	89
Hence, deductive reasoning is replaced by induction	89
Induction takes place by virtue of the rate of alertness for which both vision and proximity are needed	90
Balancing different rationalities is best developed within the <i>modus operandi</i> of an individual: it is the hallmark of personalistic experience	90
Within one individual agent the proximity of different interests is at its greatest although the variety is not	91
Projecting the self-interest maximization model is unwarranted for society at large.....	91
Ordering interests towards the self leads to instrumental rationality and the exclusion of others...	92
.....which is the opposite of what utilization values asks for	92
When does the self-interest maximization model of mainstream economics then lead to inappropriate economic conduct ?	93

<b>Part III</b>	95
<b>On market and state failures</b>	95
<b>8. THE ASSUMPTIONS OF MAINSTREAM ECONOMICS AND THEIR INADEQUACY</b>	97
The method of mainstream economics is attractive because it is powerful.....	97
.....but it is an illusion to expect instrumental rationality and self-interest to be always appropriate, especially in the events of externalities, value-based behaviour, chaos and/or utilization value	97
The method's internal consistency is achieved through the combination of commensurability, particularity and utility.	97
Combining commensurability and utility results in a calculus which maximizes money', 'public goals', or 'self-interest'	98
Combining utility and particularity results in a stable-order hierarchy	98
Particularity links instrumental rationality and self-interest: thereby the Excluded Middle can be applied	99
In fact, self-interested behaviour is arbitrary	99
Self-interested behaviour according to Sen has 3 main characteristics	100
1. Self centred welfare	100
2. Self welfare goals	100
3. Self goal choice	100
The self-interest characteristics are violated in the practice of: Externalities, and.....	100
.....'civic' organisations	100
Therefore we conclude that the basic premisses of instrumentality and self-interest maximization are inadequate in the 3 cases of:	101
1st case:	
Mixed interests or externalities	102
Here particularity leads to dichotomy.....	102
.....which is a fallacy in case of the non-particular interests of externalities and PPPs	102
Does this imply the non-applicability of instrumental rationality ?	102
Yes, since neither Excluded Middle nor Equal Distribution apply	103
Does this imply the non-applicability of classic self-interest maximization ?	103
Yes, since unplannable interdependences prevail and hence Sen's self-goal choice does not hold	103
Utilization value would therefore be a more appropriate route to follow	104
2nd case:	104
value-based behaviour	104
Since values are not particles of utility Sen's self-welfare goal does not hold	104

The binary nature of self-interest is qualitate qua contradictory to the multi-faceted nature of values	105
3rd case:	
chaos and utilization value	105
Interdependences defy Sen's 2 characteristics of self-goal choice and self-welfare goals	105
Competition impedes openness which is required to discover coherent interests' superpositions	106
In cooperative modes of economic action such as networking, selection aims at whom to include.....	106
.....whereas in competitive settings selection aims at whom to exclude	106
We conclude that self-interest maximization and/or instrumental rationality are inappropriate.....	106
.....hence, the premisses of the interests-ordering devices of mainstream economics are also inappropriate in these	
3 cases.....	107
.....which legitimizes a departure towards alternative devices whose premisses do match the nature of interests	107
<b>9. DEPARTURES FROM THE STANDARD ORDERING OF INTERESTS BECAUSE OF MARKET AND STATE FAILURES</b>	109
A sound perception of reality has been compromised to achieve a fit with the assumptions of mainstream economics	109
The nature of the interest determines the applicability of either market or state or any other interests' ordering device	109
.....and hence we compare the modi operandi of market and state with respect to 6 main attributes	110
i. Use of will	110
ii. Commen-surability	110
iii. Particularity	111
iv. Means	112
v. Interdependences	112
vi. Goals	112
When and why are market and state inadequate ?	113
The market coordinates distinct and homogeneous interests effectively.....	113
.....but cannot cope with the functional complications which arise in the cases of	
1. Non-particular interests	113
2. Uncertainty	114
3. Intrinsic interests	114
4. Heterogeneous interests	114
5. Barriers to linkages of non-market and market interests	114
6. Any combinations of the above	114
The traditionally known 8 market inefficiencies then arise	114
Missing markets can be distinguished from failing markets	115
Externalities and 'civic' organizations	116
Generally, externalities are output-related (consequential) and 'civic' organizations are input-related (motivational)	116

4 definitions of externalities	
1. Pigou's definition	118
2. Lin's definition	118
3. Heller and Starret's definition	118
4. Our definition:	
Externalities occur whenever the premisses of the ordering device of market and state are incompatible with the essentialia of the interests to be ordered	118
Interests' essentialia should have priority over the premisses of the ordering process.....	119
.....to facilitate the transformation of problems into opportunities.....	119
In this way, differently functioning markets can be complementarily superposed.....	119
.....on condition that a different role is played both by state.....	119
.....and by private parties	120
Platforms of multi-rationality emerge as a result. Their function is to create maximum latitude to actualize the potential of interests' superpositions	120
The starting point of these platforms of multi-rationality is a stakeholders' analysis to determine the potential of pooling interests	120
The process of pooling interests is intricate, not smooth.....	121
.....and requires astute interface management	121
A definition of 'civic' organizations from a motivational stance	122
The state lacks the enthusiasm and imagination of 'civic' organizations.....	123
.....but to abandon the modus operandi of state and market is a serious and all-pervasive departure which needs careful consideration	123
The traditional approach proposes 8 different state interventions to counteract externalities.....	124
.....which however all accept and maintain the traditional dichotomy of market and state	124
Instead we take a different stance by looking at market and state as two points on a continuum of interests' ordering devices, not merely a dichotomy.....	125
.....where platforms for the superposition of interests are created to open up ineffective market and state devices	125
The state can therefore act to transform a non-personalistic mass-market into a personalistic market with a social fabric.....	126
.....since persona-listic experience is superior to formalization because of its faculties of permissiveness and latitude in choosing inference rules	126
Public-private-partnerships combine Pigou's and Buchanan & Coase's approach	127
The unifying con-ception of various participants translates into practice the coherence of their interests' super-position .....	127

.....which emerges from a cyclic networking of know-how and know-why	127
Procedural' rationality focuses on creating the capa-city for problem-solving, whereas 'substantial' rationality focuses on defining the solution itself	127
Justifications for the 'civic' approach are twofold	
1. The state's incapacity to plan, which requires procedural rationality	128
2. Ethical and effectiveness considerations, which require joint idea development	128
Through the quest for good interests configurations future economies can grow	129
<b>Part IV</b>	133
<b>Beyond market and state</b>	133
<b>10. PROPERTY RIGHTS &amp; DECISION ACCOUNTABILITY</b>	135
In the quest for utilization value property rights have a different function than in the quest for self-interest maximization.....	135
.....therefore we investigate some functions of property rights with Hegel property rights function to protect liberty of choice	135
with Cheung property rights function to facilitate market conveyability. However, they could become dysfunctional in the case of intrinsic interests	136
with Locke property rights start to function when and where man labours	136
In the case of complex interests property rights should first function to guarantee accountability for the 'good ordering', not to facilitate market exchange per se.....	137
.....property rights are thus secondary to the coherent superposition of interests	137
The appropriate type and allocation of property rights follow from the stakeholders' analysis	138
Transfer of accountability backed by property rights ensures the latitude for utilization value	138
<b>11. THE CHALLENGE OF ORDERING INTERESTS</b>	141
The method of utilization value differs in three aspects from the method of self-interest maximization	
1. Utility is replaced by communality	141
2. One consistent direction of combining interests does not apply single-handed	141
3. Some rules of inference also do not apply	141
Our 'method' has been distilled through 'induction-by-experiment' and requires the adoption of certain maxims	142
Stakeholders, project and process are at the core of ordering interests	142
The stakeholders' analysis identifies interests.....	142
.....and their direction	143
Interests are tradable when tangible for property rights	143

## *Overview and Propositional Inventory*

---

In modern economies intangibles grow in importance faster than tangibles	144
Historically, tangibles alone were market-conveyable.....	145
.....which resulted in the appearance of the market in one form alone: the monetarized one	145
But through the emergence of intangibles the linkage of market with tangibles is disrupted: intangibles have to be conveyed personalistically	146
Personalistic checks and balances can control the conveyability of intangibles.....	147
.....which a mass market cannot do	147
Many interests can only be shared, not exchanged in a market, e.g. the case of mixed interests in externalities	147
Monetary ponderability is absent in the case of an intrinsic interest, which is inseparable from the agent, or.....	147
.....in the case when ownership boundaries do not exist	147
But in both cases they are interests to be actualized nevertheless	148
Imponderabilia are different from non-ponderabilia	148
Conclusion on the stakeholders' analysis.....	148
.....as the instrument for the quest for utilization value	149
A project starts with the allocation of priorities among interests	150
Rationality must be appropriate to the nature of the interests to be ordered.....	150
Hence we confirm the rejection of one single <i>modus operandi</i>	152
Actions are usually mixed but are treated as particular for methodological reasons	152
This creates no problems within a household but it does in case of exchange among households.....	153
A device not based on particularity is required for mixed interests: the 'civic' economy	153
The simple market ponderabilia of price and quantity fit particular goods but are too homogeneous for the heterogeneity of complex mixes of interests	154
Therefore the 'civic' economy has to transcend such market forces	154
It denies the dichotomy of either public or private.....	155
.....and treats social and monetary objectives on par	155
Conclusion on the ordering of interests into a project	155
Bringing together ponderabilia, imponderabilia and non-ponderabilia	156
.....and the creation of strata of interests' encounters which are better suited for complex synthesis	156
Process characteristics summarized	
1. A directional feasibility assessment which aims at intrinsic ordering, not at the market exchange ordering	157
2. Joint idea development which combines different interests	159



## *Overview and Propositional Inventory*

---

3. Separation of know-why decisions and know-how arguments to prevent the dilution of the already complex discussion on the various interests	159
The above concepts applied to PPPs	160

### **12. UTILIZATION VALUE APPLIED: THE CASE OF PUBLIC-PRIVATE PARTNERSHIP IN HANDLING EXTERNALITIES**

The theoretic failure analysis of market and state is now complemented by a practical induction-from-experiment: the case of public-private partnerships	163
PPPs emerged in the 80s to tackle urban externalities	163
PPPs can be defined in three ways	
McNulty's definition	163
Nijpels' definition	164
Our definition	164
The complementarity of means and the communality of objectives is too complex a task for the invisible hand of the market.....	165
A public-private partnership is a different device from decentralization or privatization	166
PPPs are subdivided in their manner of allocating property rights and decision accountability	166
PPPs spur growth by.....	167
.....superposing 'existing' with 'future' markets	167
Such superpositions are not to be formulated in isolation by other parties	168
Through a methodology of participant observation over 6 years in PPPs, four key characteristics have been identified:	
1st PPP characteristic: joint idea development	168
Notwithstanding different objectives a common goal is jointly to be formulated	169
North Brabant region-case: a tourism broker	169
The creation of new income streams is the ultimate success criterion	169
The point of departure are informal meetings to define know-why.....	170
.....not problem solving	170
Next, parties' intentions are summarized in a negotiation document.....	170
.....linked to a project concept	170
It is important that the parties' intention to cooperate is mentioned in the document	170
Schiphol-case: distribution zone	171
The common goal becomes the development objective of the PPP.....	172
.....whose added value guides all partnership activities	172
Arnhem Waterfront-case: urban waterfront re-development	173
Conflicts will occur since objectives differ and hence know-how and know-why should be separated.....	173
.....even by setting up separate organizations: a hybrid structure	174

## *Overview and Propositional Inventory*

---

2nd PPP characteristic: directional feasibility assessment	175
Investing hard-assets and contributing intangibles are equally important	175
The stakeholders' analysis identifies both, market exchange the former only	175
Coherently superposing hard-assets with intangibles is the crux of a directional feasibility assessment	176
Therefore, public powers and sweat equity have a feasibility implication despite being market imponderable	176
Through pooling tangibles and intangibles into a coherent superposition, intangibles assume ponderability	177
The complementarity of interests is first underwritten, then detailed out in three steps	
1st step: selection, who benefits by what ?	178
2nd step: project concept, what is at stake ?	178
A 'minimum in common' is better than 'the best' in isolation	178
3rd step: the final project is gradually unveiled	179
3rd PPP characteristic: organisation of the partnership	181
The 2-tiers structure allows to narrow down a too broad general interest, and to broaden a too narrow private interest into one common project	181
Long-term interested parties require negotiation latitude.....	181
.....which is the purpose of the quasi-public side of the PPP hybrid	181
The non-profit of the PPP hybrid implements sub-economic components	182
The two organizations are contractually linked	182
Property rights create accountability and continuity	184
An international comparison of PPP projects in the UK, France, the Netherlands and the USA shows the different models	185
1-tier model in the UK, the Urban Development Corporation (UDC), and in France, the Etablissement Public d' Aménagement (EPA)	185
.....and the Groupement d' Interet Economique (GIE)	186
2-tier model in the USA	186
In France	186
in the Netherlands	187
4th PPP-characteristic: change in defining the position of interests (positioning)	188
Private versus public, long-term versus short-term interests	188
During the process of joint idea development there are two areas of tension: different cultures, and unusual practices	188
The identification of a common result will build cohesion and lead to self-contained conflict	188
Each sector will gradually focus on the know-why, not the know-how, thereby lowering conflict	189
Mediating conflicts and managing the changing positioning of interests is best undertaken by a 3rd party	189
PPP success factors are highlighted in policy studies from the Netherlands, Indonesia and the UK	189

## *Overview and Propositional Inventory*

---

The above 4 process characteristics of PPPs are derived from case-experience	191
This research on PPP functions as 'induction from experiment' to show that there exist interest configurations which are too complex for the homogeneous devices of market competition and state hierarchy	191
<b>Part V</b>	193
<b>Towards the good ordering of interests</b>	193
<b>13. CONCLUSIONS ON THE COMPLEX ORDERING OF MIXED INTERESTS</b>	195
The dynamics of high-complexity require their own inference rules.....	195
.....and market /state do not necessarily apply	195
Mainstream economics has remained focused on correcting the symptoms of market failure without fundamentally altering the modus operandi of the standard devices of market and state	195
Traditionally, it proposes as a solution the state in ascendancy to the market	196
This is an illusory solution since it does not alter the modus operandi	196
What is required is to preserve the nature of mixed interests intact and not compromise it on methodological grounds	197
We introduce a stance which assumes that interests are part of a continuum	197
The continuum appears as chaos	197
Two instances of non-chaos within the continuum are market and state.....	197
.....which testify of fractals, each with its own modus operandi.....	197
.....dynamics, critical limits and premisses	198
The ideological argument has been replaced by the modus operandi argument in the economic debate of market and state	198
By defining two fractals a third follows, with its own modus operandi: mixed interests	198
A fractal is effective in one context, defective in another	199
Our stance is the-refore to prevent the adoption of one and the same fractal for different complexities	199
Mainstream economics has not differentiated outside the traditional two fractals.....	200
.....and has persisted in its traditional iron logic	200
Nevertheless a different rationality is required	201
The one fractal of self-interest maximization has been wrongly applied	201
High complexity has to be faced	202
.....and hence focus on its dynamics, critical limits, premisses, practicalities	202
4 traits characterize the dynamics of high complexity:	
1st trait: common interest .....	203

## *Overview and Propositional Inventory*

---

.....which has been brought to the fore by the sudden increase in externalities	204
3 practicalities follow therefrom:	
1. joint idea development	204
2. prior agreement on risks allocation	205
3. allocation of property rights within separate legal entity	205
2 prerequisites are needed:	
1. joint projects	206
2. stakeholder's analysis by a third party	206
2nd trait: ordering coherent superpositions outside market exchange	206
2 practicalities follow therefrom	
1. pooling resources through imagineering, instead of competing in the market place	207
2. personalistic ordering instead of abstract market exchange	208
3 prerequisites are needed:	
1. personalistic platform instead of mass market	209
2. imagineers as third party	210
3. prevention of competitive forces among partners	210
3rd trait: commitment to communality of aims since objectives are not commensurable	210
3 practicalities follow therefrom:	
1. utilization value is more important than self-interest maximization	212
2. cyclic networking of know-how and know-why	212
3. contracts to limit chaos by stipulating what not to do	213
2 prerequisites are needed:	
1. acceptance of the convergence of different goals, and the complementarity of resources	215
2. understanding the difference between the pursuit of utilization value and self-interest maximization	216
4th trait: propinquity and positioning of interests determine success.....	216
.....3 success factors contribute to a good choice of contexts	218
1 practicality follows therefrom:	
1. positioning of decision-makers in various platforms	218
2 prerequisites are needed:	
1. openness for various modi operandi	218
2. selection capacity	219
The quest for utilization value is quintessential for the welfare of our future economies as interests are increasingly mixed	223



## FOOTNOTES AND BIBLIOGRAPHY

- 1 Sen A., ON ETHICS AND ECONOMICS, page 74.
- 2 Palazzi M., Young R., Hesselings P., Kloppenborg P., TOWARDS THE CIVIC ECONOMY, Progressio Foundation Civic Enterprise Series Publication 1, Amsterdam 1990.
- 3 Case-experience consists of originating and implementing public-private-partnerships in the complex interest configurations of urban development. The following projects were undertaken: 1985-86 Rotterdam Waterfront, 1986-87 Schiphol Airport Distribution Zone, 1987 Arnhem Waterfront, 1988 Tilburg Leisure Complex, 1988-90 Gaborone Botswana International Trade & Exhibition Centre.
- 4 See A. Etzioni, THE MORAL DIMENSION, 1988.
- 5 See "THE HUMAN DEVELOPMENT REPORT 1990", United Nations Development Programme, New York, 1990.
- 6 ENCYCLOPEDIA BRITANNICA, Standard Dictionary of the English Language, Chicago, USA, 1962, page 1383.
- 7 See Dahrendorf R., DIE ZEIT - Symposium, 29 December 1989.
- 8 Etzioni A., Op. cit., page 138.
- 9 Hesselings P., KRINGLOOP VAN KENNIS IN ECONOMISCHE ORGANISATIE'S, 1984.
- 10 Drucker P., 'The futures that have already happened', October 21, 1989.
- 11 See Vaclav Havel, POGING OM IN WAARHEID TE LEVEN, 1990.
- 12 Kloppenborg P., Lambooy J., Priemus H., Tzónis A., Public-Private Partnerships, MSc. Thesis, TUD 1987, P. 25.
- 13 Armstrong A.H., AN INTRODUCTION TO ANCIENT PHILOSOPHY, London 1984, page 82: see Aristotle, Cause is meant as Causa efficiens, End as Causa finalis.
- 14 Russel B., PRINCIPLES OF SOCIAL RECONSTRUCTION, London, 1923, Chapter 1, The Principle of Growth. Here he states as follows: "...My aim is to suggest a philosophy of politics based upon the belief that impulse has more effect than conscious purpose in moulding lives..."
- 15 The instrumental interests of economists resemble the "external goods" of philosophers whereas intrinsic interests resemble "internal goods".
- 16 The analogy between the realm of physics (nature) and man has been cultivated over the last two decades; see 'THE DANCING WU-LI MASTERS', UCLA, California, USA and New Age Thinking.
- 17 See L. Sfez, CRITIQUE DE LA DECISION, PUF, 1981.
- 18 Descartes, DISCOURSES, 1637
- 19 Emmanuel Kant's division of 'Percept' and 'Concept' is being practiced here.

- 20 Kloppenborg P.H.L., 'CONCREET VORMGEVEN AAN PPPS', FNV-Lecture, 26 March 1987.
- 21 Allais M., Le comportement de l'homme rationel, *ECONOMETRICA*, 27 October 1953.
- 22 Compare the notion of 'Commensurable utility' and 'one set of inference rules' with the notion of 'normalité' in L. Sfez, *CRITIQUE DE LA DÉCISION*, PUF 1981, pages 158, 159.
- 23 Marshall A., *PRINCIPLES OF ECONOMICS*, Macmillan, 1890.
- 24 Utility and especially one *commensurable utility* (one common denominator) provides for *transcendancy* over all elements of a system.
  - Human behaviour by nature provides for *memory* or *learning experience*.
  - *Maximizing* behaviour provides for *one consistent direction* to the *combination* of elements be they in or outside the household (exchange).
  - *Commensurability* combined with *maximization calculus* provides for *binary rules of inference*
  - *Self-interest* as the sole criterion of utility provides for *stable order* as it is the all-pervasive goal of all household and with which any behaviour, action or combinations of means can be purported to be compatible.
- 25 Bachelard G., *LE NOUVEL ESPRIT SCIENTIFIQUE*, PUF, Paris 1934.
- 26 Buchanan A., *ETHICS, EFFICIENCY AND THE MARKET*, Oxford, 1985.
- 27 Godelier M., 'RATIONALITÉ ET IRRATIONALITÉ ÉCONOMIE', Maspero 1969, page 207.

Rationalité: profit = classic rationality  
Zone d' intérêt = interest web  
Situation donné = context  
Possibilités = potentiality  
Individuelle en rapport avec la société = communality, i.e. common result  
'Activité sociale' is inherent to the science of economics
- 28 Russel B., *MYSTICISM AND LOGIC*, 1953, P. 19.
- 29 Reason and rationale: their distinction is best expressed by the Latin counterparts 'intelligens' and 'mens'. 'Intelligens' means 'to read into' whereas 'mens' means 'to deduct'.
- 30 Neurophysics; neuropsychology; cybernetics.
- 31 Bohm D., *ON THE INTUITIVE UNDERSTANDING OF NON-LOCALITY AS IMPLIED BY QUANTUM THEORY*, 1974.
- 32 See Lamboy & De Jong, *Intermediair*, 1988; see Kloppenborg, 'Public-Private-Partnerships', chapter 1.7, Amsterdam 1987.
- 33 Giarini O., *DIALOGUE ON WEALTH AND WELFARE*, Club of Rome, 1980. Giarini defines 'utilization value' as 'the combination of monetarized and non-monetarized elements', as compared to our definition (see page 11) of 'best use of available

- interests (possessed and non-possessed) in order to optimize the common result of added values in a specifically chosen environment.
- 34 Brouwer L. E. J. or Bohm D.
- 35 In the 'civic' economy the combination of different forces is exemplified by activities such as the 'bad-debt - green-equity swaps' between commercial banks such as NMB and not-for-profit organisations such as World Wildlife Fund.
- 36 Quoted from G. Zukav, *THE DANCING WU-LI MASTERS*, Bantam Books, 1979, page 270.
- 37 Its own thing-in-itselfness can be compared to 'l'etre-en-soi of philosophy.
- 38 Strategic positioning is involved here such that the position of the interests utilization value is optimized.
- 39 Zukav G., *Op. Cit.*, pages. 263-268.
- 40 For additional cases, see *Scientific American*, February 1990.
- 41 Birkhoff G. & Von Neumann J., 'The Logic of Quantum Mechanics', *ANNALS MATHEMATICS*, Vol. 37, 1936.
- 42 Von Neumann J., *THE MATHEMATICAL FOUNDATION OF QUANTUM MECHANICS*, 1932.
- 43 Buchanan A., *ETHICS, EFFICIENCY AND ECONOMICS*, 1985, P. 22-23.
- 44 Lin S.A.Y., *THEORY AND MEASUREMENT OF ECONOMIC EXTERNALITIES*, New York, 1976, P. 2.
- 45 Coase R.H., "The problem of Social Cost", *THE JOURNAL OF LAW AND ECONOMICS*, 3, October 1960.
- 46 This is also the formulated objective of most public-private-partnerships, e.g. Arnhem - Rynoevers-redevelopment project.
- 47 E.g. The Regional Authority in the Province of South Holland decided not to intervene but exercise a catalyst role, instead.
- 48 Stobbe, *THE ROOM FOR COMMERCE*, Rotterdam 1989, page 34.
- 49 Sen., A., *Op. Cit*
- 50 Stobbe, *Op. Cit.*
- 51 Sommerhoff, 'The abstract characteristics of living systems' in: Emery F.E., *SYSTEMS THINKING*, Baltimore, 1969, page 155.
- 52 A coherent superposition of interests.
- 53 The breakdown of the planned economies in 1989-90 testifies to the superiority of the individual's decision-making to the bureaucracy's planned decision-making apparatus.
- 54 Brouwer L.E.J., 'Many-values' logic instead of binary, two-values' logic.
- 55 The individual's rate of alertness can be compared to the scholastic 'potentia oboedientialis', or 'providentia' (see Houtepen).
- 56 See Sommerhoff, *Op. cit.*, page 191.
- 57 See Stobbe, *Op. cit.*, page 97.



- 57 Staal J.F., Exploring Mysticism, 1978, HET WETENSCHAPPELYK ONDERZOEK VAN DE MYSTIEK, SPECTRUM 1978, page 48-53.
- 58 Stez L., CRITIQUE DE LA DECISION, Paris, 1981, page 260.
- 59 Beth E.W., MODERNE LOGICA, Assen, 1967, page 98.
- 60 Hegel, VORLESUNGEN ÜBER ASTHETIK, 1888. Hegel replaced the original Greek EN-THEOS (being with the gods) with 'die Sache'. This most secular transformation enabled its use in an economic context.
- 61 In English: "Many Worlds View", THE DANCING WULI MASTERS, Op. Cit., page 305.  
In German: "MANNIGFALTIGKEIT, VIELFACHKEIT", see Karl Jaspers, Nikolaus Cusanus.
- 62 A practical implication for the interface management of projects with non-particular interests is that individual property laws do not apply in the start-up phase. Legal research is needed to discover what alternative legal means apply.
- 63 Enthusiasm, or entheosiasm.
- 64 INTERNATIONAL HERALD TRIBUNE, January 4th 1991, Lovejoy T. "A way to aid debtors and the earth".
- 65 Roger Scruton, AESTHETICS OF ARCHITECTURE, Oxford, 1981.
- 66 Correspondence seems indeed to be a necessary condition of rationality as a whole, whether or not it is also sufficient. See Sen A., Op. Cit., page13
- 67 As in classic physics "light" is dissected in its *supposedly* vertical and horizontal components.
- 68 In German: Verdinglichen von Werten.
- 69 See Sen A., Summary of a similar critique by him and others, Op. Cit., p. 11 and p. 16, 17.
- 70 How the quality of *urban development* is determined by the multi-rationality for which the various decision makers should cater, has been the subject of the MSc Thesis, P. Kloppenborg et al., Public-Private Partnerships, TU Delft, 1987.
- 71 How this conclusion applies even for the most institutionalized of all sectors, the corporate finance system, is explained in The Economist Survey of Capitalism under the heading of "Proprietor Capitalism or Real Ownership". See THE ECONOMIST, May 5 1990.
- 72 A. Smith, THE THEORY OF MORAL SENTIMENTS, Liberty Classics, 1976
- 73 Arendt H., DE MENS, BESTAAN EN BESTEMMING.
- 74 Sen A., Op. Cit., page 80.
- 75 For definition, see Lin S.A.Y., Op. Cit., 1976.
- 76 See Sen, Op. Cit., page 83.
- 77 Pennant-Rea & Crook, THE ECONOMIST ECONOMICS, 1985, page 156.

- 78 Buchanan A., Op. Cit., page19.
- 79 See Lin A.Y., Op Cit.
- 80 'The Post-war literature on externalities: An Interpretative Essay, JOURNAL OF ECONOMIC LITERATURE, March 1971
- 81 'To actualize' is different in that it focuses on presence in reality and existing as a fact whereas 'to realize' focuses on the conversion into fact (see the Concise Oxford Dictionary). Therefore, we use to actualize for intrinsic goods and to realize for external goods.
- 82 Buchanan A., Op. Cit., page 26.
- 83 Sommerhoff G., Op. Cit., page 152.
- 84 Buchanan A., Op. Cit.
- 85 Marshall A., Op. Cit.
- 86 See A. Etzioni, Op. Cit., page 138.
- 87 Chadwick G.F., THE LIMITS OF THE PLANNABLE; STABILITY AND COMPLEXITY IN PLANNING AND PLANNED SYSTEMS, 1977.
- 88 Mannheim K., (see J. Lambooy, De Stad, Op. Cit., page 82).
- 89 King N., PLANNING THEORY: AN EXAMINATION OF THE LINKAGES BETWEEN IMPLEMENTATION, KNOWLEDGE AND ACTION, UCLA, Los Angeles, 1974.
- 90 Hegel G.F., LECTURES ON THE PHILOSOPHY OF WORLD HISTORY, Cambridge, 1975.
- A. Buchanan, Op. Cit., page 81.
- 91 Liberty of choice: moral argument.
- 92 Tradeable on a market: efficiency argument.
- 93 Cheung S.N.S., Op. Cit.
- 94 Drucker P., THE ECONOMIST, October 21, 1989.
- 95 Palazzi M. et al., Op. Cit.
- 96 Drucker P., in Palazzi M. et al., Op. Cit., page 34
- 97 Palazzi M. et al., Op. Cit., page 38
- 98 A forum (or urban think-tank) will regularly bring together public and private sector participants to discuss problems of mutual interest; they are rooted in a practical concern for local economic and social well-being. See Conclusions on institutional and organizational structures, on page 11 of 'URBAN DEVELOPMENT AND INVESTMENT: PUBLIC AND PRIVATE COOPERATION', OECD, Paris, 1989.
- 99 Cummings T., The case of ITT-Digital, IMD, Lausanne, Switzerland, 1990
- 100 Kloppenborg P.H.L., PUBLIC-PRIVATE-PARTNERSHIPS IN URBAN DEVELOPMENT, Amsterdam, The Netherlands, 1987.
- 101 Mc Nulty R.H., PPPs and urban revitalization in the USA, in the OECD-Turkey seminar on Government relationships in Urban Development, 25-28 June 1984.
- 102 Nijpels

- 103 Baumol W.J., Matching private incentives to public goals, in Brooks et alia, page 191, 1987.
- 104 Kloppenborg P.H.L., PUBLIC-PRIVATE-PARTNERSHIPS IN HET STEDELIJK HERSTRUCTURERINGS PROCES, , Amsterdam, 1987, page 1.
- 105 Brooks H. & Liebman L & Schelling C.S., PUBLIC-PRIVATE-PARTNERSHIPS, NEW OPPORTUNITIES FOR MEETING SOCIAL NEEDS, Cambridge, USA, 1987.
- 106 "PPPs put local democracy under pressure", see P.H.L. Kloppenborg, Lecture at OSO Annual Meeting for Recreation & Leisure Authorities, 4-5 June 1987.
- 107 A PPP is not less of a commitment by the public sector as it is frequently supposed but more so.
- 108 Foley, D., "Lindahl's Solution and the Core of an Economy with Public Goods", *ECONOMETRICA*, January 1970, 38, 66-72.
- Meade, J., "External Economies and Diseconomies in a Competitive Situation", in A. Arrow and T. Scitovsky, eds., *READINGS IN WELFARE ECONOMICS*, Homewood, Illinois: Irwin, 1969, 185-198.
- 109 Publiek-private samenwerkingsvormen, praktijkcase NV Economisch Herstel Zeedijk, Holtus et alia, Master's Thesis, EUR Rotterdam, May 1988
- 110 Heller & Starrett.
- 111 Joint development of ideas.
- 112 Directional feasibility assessment.
- 113 As from the case experience of the following projects: Rotterdam Waterfront, Schiphol Area Distribution Zone, Arnhem Waterfront, Tilburg Leisure Project (all in the Netherlands, Europe), Gaborone Fairgrounds (Botswana, Africa).
- 114 Heller and Starrett stress the function of marketeer by private brokers and cite the frequent failure of such future market maker (the PPP-partners) as an eminent cause of externalities; such broker should adopt the marketeering function of linking existing with complementary markets in order to create a coherent superposition of interests as testified by the future market.
- 115 P.H.L. Kloppenborg, "Schiphol Area Development" - A case study on PPP for infrastructure, lecture at the 12th INTA World Conference Malmö & Stockholm, Sweden, June 12-17, 1988.
- 116 "The interaction between Schiphol Airport and the Region", Armkreutz & Veldhuis, *Tijdschrift voor Vervoerswetenschap* 1987 jrg. 23/4.
- 117 Kloppenborg, P.H.L., "The Arnhem Waterfront public private partnership- A case study", Lecture at the 11th INTA Annual World Conference London Docklands, United Kingdom, June 1987.
- 118 Bijlsma & Feddema, Het Schiphol Convenant, een voorbeeld van ondernemende planning, S & V September 1987.

- 119 Lindenberg Ir., J.H.M., "...creative banking...". Financieel Dagblad, 1.2.1990, page 5 shows another case of a *coherent superposition of diverse interests*: shipbuilding for African bad debt 'swap'. A Dutch shipbuilder buys a fishing vessel from a bad debt East European builder at a discount. Through lease financing, the ship is sold to the African party without increasing its external debt. Through a project financing arrangement foreign revenues from the sale of fish is used to service the lease.
- 120 Kloppenborg P.H.L., "Public-Private Partnerships in the Rural Development of LDCs", Post Conference of the African Ministers of Finance & Development Planning, Lecture, July 1990.
- 121 Kloppenborg, P.H.L., "Public-Private-Partnerships for low-cost housing in LDCs", HABITAT lecture at IULA, 11 April 1990.
- 122 Kloppenborg, P.H.L., PT Aktueel  
Kloppenborg,P.H.L., NCB
- 123 Kloppenborg, P.H.L., "Public-private partnerships in the building industry", Lecture at FNV Federation of the Dutch Trade Unions Conference, 26 March 1986.
- 124 Lyon, "Opération Ferrandiere" and "Opération Bianchini-Ferrier", see P.H.L. Kloppenborg, VROM study , Ministry of Housing, The Netherlands
- 125 Case experience comprises the following projects: Schiphol Area Distribution Zone, Gaborone Fairgrounds Botswana, Arnhem Waterfront, Tilburg Sports and Leisure Centre, Rotterdam Waterfront, Province of South Holland Hollandse Jssel. The case studies of Schiphol and Gaborone are available in English , the remaining in Dutch.
- 126 A fractal is the ordering principle of a system.
- 127 Hesseling, P., LEARNING STRATEGIES FOR INTERNATIONAL BUSINESS, to be published.
- 128 Boulding K.E., LEARNING PROCESS IS THE REAL KEY TO DEVELOPMENT, 1966.
- 129 Cheung S.N.S., THE MYTH OF SOCIAL COST.
- 130 For example, in Dutch environmental law this is achieved by requiring the seller of land to set up a fund as financial security or guarantee against hitherto unknown but potentially identifiable waste damages. Therefore, negative externalities are internalized in the net present value of land through the risk discount. In other words, the future is incorporated in the net present value. See Prof. Dunné's lecture at NMB Amsterdam, 12.5.1989.
- 131 For public-private-partnerships see: "Rechtspersonen en publiek-private samenwerking", Prof. Mr. W.J. Slagter and Mr. K.J. Slump, Bouwrecht '88, Nr. 9, p. 633.
- 132 Hamming J.W., Juridische aspecten van een PPP, IRR-Conference Amsterdam, 16-17 January 1989.
- 133 Hamming, Op. Cit.

## *Footnotes and Bibliography*

---

- 134 Mishan, page 296 of Block, Brennan & Elzinga.
- 135 Hamming, Op. Cit.
- 136 Public private cooperation even for the environment, Heidemij Holding, Arnhem, 1989.
- 137 See the unpublished Policy Paper for the Provincie Zuid Holland, "Public-Private-Partnerships and the role of regional public authorities", P.H.L. Kloppenborg, 1988 and Kouwenhoven V.P. & van Woes M.J.F. "Moet de Provincie PPP entameren, TvO 4.8.1988.
- 138 Scientific American, February 1990.
- 139 Kloppenborg P.H.L., "PPP: the pragmatic vehicle of small is beautiful" in Bouwbelangen, 9 oktober 1987.

