The Role of Economic Rights and the Law in Social Economics: a Classic Natural Law Perspective

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Abstract
The paper presents a legal approach to social economics, that is to say a perspective to study economic interaction framed by an analysis of rights, obligations and rules. Contemporary Law and Economics has not increased the theoretical understanding of this issue. On the other hand, the institutionalist wing of Social Economics is increasingly including ethical and legal elements in its study of economic processes and allows for an understanding of the very social and psychological nature of the law.

We will start from the notion of transaction and, in particular, from the framework proposed by John Commons (1924). After discussing the notion of law incorporated in Commons’ scheme, we will modify the variables as to fit different interpretations of law coming from different traditions. In particular, we will try to understand the idea of rights and of the law emerging from the work of Ronald Dworkin and other contemporary philosophers of law. That “liberal” approach will be compared to a “conservative” (in terms of view of the law) approach deriving from the classical natural law approach. This comparison has the aim to single out the specificity of an “ethical-realism” view of man. This will allow to better understand the role of the law and of moral obligations in the regulation of economic activities.
1. Introduction: the divide between the law and the economy

The twentieth century has seen a progressive methodological divide between legal and economic studies. This divide has not been reduced by the development of Law and Economics, as the latter simply applies the economics method to legal issues. A necessarily more fruitful field of interaction between these perspectives is Social Economics which, since its beginning has adopted a more integrated and interdisciplinary approach including elements as rights and institutions. In particular, among the many issues debated in social economy studies, the theme of economic justice has stimulated much fruitful research in the course of history and that still deserves to be further developed. In this field of research the study of the legal variables comes into strict contact with economic reasoning. Consequently, categories used in the economic analysis should be harmonized with the legal framework. The choice of the legal theory to develop social economy to study problems of justice is complicated by the plurality of theories available today, which present difficulties to be analyzed because their framework is not always explicit or clear.

The starting point is that “the members of a human society are bounded together by a network of rights and duties” (Hanfling, 2006: 63). Jus means legal relationship. In order to understand the role of the law in economic processes, a relational approach to economic intercourses is needed. John Commons’ (1893; 1932) concept of transaction is still the best framework in which we can study economic and legal elements in a unitary view of human action. Commons’ transaction is able to frame the often cited relationships of “conflict, mutuality and order” as well as it can include the law and rights as part of the inter-relationship. In this work we will use such framework and develop some hypothesis on a reasonable development of this scheme in social economics.

Within the family of economic justice studies, the theme of social and economic rights is receiving an increasing attention by social economists (e.g. Hertel and Minkler, 2007). The same idea of right, however, presents several difficulties to be included in economic studies. As a consequence, we should develop a frame connecting the political, legal and economic discipline to understand the different regulatory role of rights in the economy according to different theories. In the last three decades, the mostly debated author in this field is Ronald Dworkind, who has devoted his research to a coherent framework to understand rights in the political context. Unfortunately, his theories have not found much attention among economists (as those of Rawls). However, the very notion of “right” has to be discussed to be properly included in economic reasoning as the work of Fiorito (2010) on Commons testifies.

Modernity brought this idea of rights. Also classical approaches in the last two centuries have adapted to the new concept. However, depending on how we frame it, we end in many different interpretations of the role of law and the state to achieve acceptable social ends. The perspective proposed here is classical, but this is not a re-proposition of Aristotelian or Thomistic frameworks. The idea of individual rights is accepted and developed to be understood in a social economic institutionalist framework able to study fairness of economic processes. Therefore,
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ASE sessions at the 2014 ASSA - Philadelphia, January 3-5, 2014

concepts of the classical tradition, including the ideal-realist approach, are fitted into a transaction approach.

In the following pages, the idea of individual social and economic rights is first discussed. Then, the third section the relational approach to rights is presented and in the fourth section it is applied to the transaction economics approach.

2. Property rights and the law

In the classical political philosophy and philosophy of law, we do not find the idea of individual rights. The latter is a modern invention, certainly an extremely important invention for contemporary political thought. In the past, we could find the use of concepts as the law, the right order of society, right behavior, etc. but no notion pointing to a “defensive” relationship between the individual and political authority was developed. On the other hand, political liberalism is based on a social philosophy built around the idea of individual rights and totally dependent on it. However, the specific historical times in which the idea of individual right was conceived, shaped this notion in a way that also affected the development of disciplines – as political economy – that unfolded from the social philosophy of liberalism. In particular, property right was conceived as a defensive principle to protect the individual liberty from the authority of the state. As a consequence, the relational principles that shaped ancient theories of the law and that led to the idea of Ordo was lost to the advantage of a clam of individual autonomy. Unfortunately, after modern natural law achieved the acknowledgement of individual property face to the claims of the sovereign, this idea of right was used to develop a view of society where property rights are a fundamental right coming before any other right or obligation and, above all, neglecting any obligation that the individual has in relation to his neighbors.

Property rights, that originally were intended to be an all-inclusive concept, so that in the view of Hobbes it concerned our own life, body, family affections and wealths, became a simple “stock-package” pointing to the specific relationship between the individual and the good. It came to consist in a right of exclusion functional to a conflictual relation with others, that had to be defended by the state. This perspective is still dominant in both radical liberal views of society and liberal-progressive conceptions of the extension of social and economic rights.

An example of this fact is the definition of basic rights by Henry Shue (1996) as “the minimum reasonable demands that everyone can place on the rest of humanity”. Here the right is conceived as an open claim and not as a relationship between individuals. This idea has also shaped the form of twentieth century welfare states developed out of the universalist principles of the Beverdige report. Some social right – as the right to health – has found some implementation following the same path that property rights were implemented: by letting the state provide a specific service (or through some form of collective action granted by the law). The usual critique of this kind of rights is that finding no specific obliged individual as a
counterpart, it leaves to the state all charges of assuring a minimal fulfillment. Therefore, due to the way rights are conceived, they are not easily transformed in “justiciable rights” and therefore the government has to assume the costs of fostering them.

The position of Ronald Dworkin work is relevant in this field. He was not a positivist and therefore he acknowledged a fundamental moral dimension of rights, but he remained an individualist.\(^1\)

The interesting aspect of Dworkin (2011) approach is his idea of *unity of value*, that is to say, unity of moral and ethic values.\(^2\) The law is is not competing with morals, but it is a branch of morals. The point of his theory is the connection between ethics and the morality of dignity framed by principles of fair government.

Dworkin (2011) argued that personal interest had to be an ethical ideal. Modern political and economic philosophy conceives them as conflicting: morals means subordination of personal interest. The alternative takes liberty as first in a struggle against biology and traditions to reach a happier life. The Greek view of an interpretative unity of the two spheres of value (morals and interest) has survived in a degraded form. Greek ideals affirmed that the good life is something beyond the satisfaction of desires, to care for the others. Modernity abandoned the integrity of morals and ethics.

However, when Dworkin comes to define the “right”, he proposes a definition of something residual from collective ends of society.\(^3\) In this way, he distinguished:

1. background rights, relative to society in general;
2. institutional rights, relative to specific institutions.

Moreover, he also distinguished between arguments of principles and policy arguments. A policy standard is an objective to be reached, an economic improvement. A principle is a standard to be observed as fundamental requisite of justice and equity. Therefore principles are not rules, but an orienting device.

Dworking aim to rejoin rights with classic principles is partially successful as we can interpret his theoretical work as a reinterpretation of the political community (*polis*) in present times. Nonetheless it represents still a “vertical” conception of rights as they are defined relatively to the state. The idea of a morality organized by the state is also open to an interaction with civil society. Finally, the idea of principles as field organizers and elements able to align behavior can have interesting application in a social economic theory of economic transactions. The problem is that Dworkin totally bases his reasoning on public law, not on private or social law.

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1. Legal positivism presumes that the law is the result of explicit social practices and institutional decisions.
2. In Dworkin (2011) definition, Ethics: is the study of how to live well. Morals is the study of how we should treat the others.
3. He discussed the Rights to equal consideration and respect. and argued that there is no trade-off between liberty rights and equality rights: there is no right to freedom (Dworkin, 1977).
3. A horizontal view of rights: recognition

The individualization and the verticalization of the idea of right, originating from a preferential relationship between the individual and the state, is not helping much the socio-economic analysis. In fact, since the beginning of social economics, a critique of this conceptual architecture was conducted by those who – from Sismondi to the Jesuits – focussed on the problem of social justice. The idea of individual rights can be a useful theoretical device if it can be understood in a tripartite relation between transacting individuals and the political authority. Therefore, when we talk about the right of a person, we should always understand what obligation it entails from other subjects and what kind of intervention from political authority.

A second problem consists on justifying rights, to understand the logical thread that connects the juridical elements framing economic interactions. Scanlon (1998) expressed a similar concern, although from a contractualist perspective, pointing out the need of requirements of justifiability to others. Hanfling (2006: 62) similarly argues that rights belong to a language game which includes the exchanges of reasons. Some scholar found the idea of rights into the principle of human dignity or into human needs. The latter principles are certainly good in principle, but they remains tremendously vague in practice. Contemporary contractualists as Gewirth (1992, 1996) found justification of rights in purposeful human action, that is to say in a specific deliberation. That leads also to constitutionalism, but formal laws can be empty of practices. The problem is to explain actual rights operating in social relationships. On the other hand, Amartya Sen (2004), from his applied perspective, affirmed that rights can be functional to positive freedoms. But he could not explain the source of rights and, actually, rights and capabilities are two competing concepts in Sen’s “a-juridical” system, which is totally based on the pragmatic idea of assuring human capabilities in a non relational setting (that is a good theoretical system, but not related to our problem).

The approach followed here is classic in the sense that we give priority to moral law guiding effective individual action, framed by social customs and institutions. The basic idea is that in social economics we should understand how effectively economic behavior takes form affected by the social fabric. Therefore, priority is given to rules and rights as effectively perceived by acting people and not from an abstract theoretical perspective. On the other hand, human behavior has to be studied in its social dimension, that is to say, from a relational perspective.

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4 Those who start the theorization of rights from the individual have difficulties proceed to an operational political-economic theorization as well as they tend to crowd out social law in favor of top-down reforms. Also Joseph Raz (1986) tends to follow this direction.

5 Sen (2004: 328) affirms that while rights involve claims, freedoms are primarily descriptive characteristics of the conditions of persons. Martha Nussbaum (2003), on the other hand tends to see the freedom perspective as too vague. Moreover, some freedom limits others. So she sees the capability perspective as complementing the approach based on rights.
A similar approach characterized the ethical-conservative thought of Burke: the true law comes from moral customs diffused in a community. He argued that the rules more apt to foster the well-being of a society emerge from the experience of that community. So rights derive from actual customs and precede formal law. The approach presented here does not take this view as a normative view, but as an applied theorizing perspective. Justification for rights can be shaped inside a practical view of social-economic interactions. Some past philosophers have followed a similar path.

Today, we are assisting to a rediscovery of Hegel’s Philosophy of Right (Honneth, 2000; Ver Eecke, 2008) and to Rosmini ideas on the law, also for aspects affecting economics (Hoevel, 2013). The main idea that these authors have rediscovered is the fundamental act of “recognition” on which any community is based. Recognition is the cognitive act by which each person recognizes in his next a human identity and it also is at the ground of the respect due to the other’s identity, including her specific living sphere, that is at the ground of any juridical relationship. The rights are not such by themselves or by metaphysical reasons, but because others have felt an obligation to recognize them. The right, according to Rosmini (1888), is in itself a moral entity that emerges in the relationship between personal freedom and moral law. Therefore, in this view the idea of duty logically precedes that of right (Hoevel, 2013: 103). The rights that we recognize to the others are obviously obligations that we are, directly or indirectly, willing to fulfill (Rosmini, 1893ab). This aspect makes the juridical relationship fundamentally reciprocal (as in the Kantian scheme, White, 2010).

This perspective is at the same time “cognitive and behavioral” because it simply asserts that rights are what we recognize each other, and ethical because we obviously attach a dimension of an “ought to be” on what we recognize to each others. It is evolutionary but not normative because we leave open the content of rights to include what history presents as actualizations of these relationships. Therefore, there is a realist dimension on this framework of analysis that allows to understand exactly what are effective rights and obligations, and there is a moral dimension concerning the rights that we ought recognize to the next according to the ethical vision of a society where we would like to live in. This does not mean that there are no universal or fundamental rights, but that issue is not analyzed here.

Once accepted the factual-ethical dimension of rights, some specification on the exact architecture of juridical relationships involving the individuals and the political authority can be worked out. Here, many classifications of rights can be performed, as that between positive (entitlement to) and negative rights (free from interference) and obligations (similar to Kantian perfect and imperfect obligations) (Hertel and Minkler, 2007), can be performed. In case of

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6 In the theory of Honneth, recognition is something we should struggle for. In Rosmini it is a natural attitude that does not lead to a transcendent “we” as in Hegel. In this way, in Rosmini, the right to property is at the same time personal, interpersonal and social (Hoevel, 2015).
imperfect rights, we should recognize (and be ready to pay for) the specific forms of collective action that are assigned to fulfill such rights.

4. Economic transactions and the legal framework

According to Tusset (2014), in a study on Gustavo Del Vecchio (an Italian economist who developed a relational approach to economic exchanges), the relational approach to economic interactions can be traced back to the studies of Friedrich von Hermann (1870) and to Henry Dunning Macleod (1872). Apparently, von Hermann affected the work of Böhm Bawerk (1881) who, at its time, directly inspired the conception of transaction elaborated by John Commons. Moreover, the characteristic of the relational approach is that it fundamentally involves legal variables, that is to say, rights, obligations and rules.

Commons since his first work (1893) has attempted to systematically connect juridical elements with economics. In his *Legal Foundations of Capitalism* (1924) he adopted and slightly modified the legal theory of Hohfeld (1919), which was fundamentally relational and horizontal. In this perspective, the allocation of goods takes place in a juridical environment, where individuals act in a space defined by rights, duties and working rules.

In the standard economic theory, shaped by the individualist conception of rights, property right is the only right considered. Therefore property right is a “stock”, coinciding with the good exchanged, that can be traded. The property right becomes in this way a tradable asset.

![Figure 1: The neoclassic property right](image)

Commons (1924) elaborated a legal framework to study transactions under the institutionalist hypothesis that economic outcomes are fundamentally affected by the institutional set-up. The latter include a variety of variables including juridical elements: working rules, rights and duties,

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7 The latter chain of influence is presented in Fiorito (2010). It is not clear how much Commons got inspiration from the work of Macleod. Consequently, the idea of basing the study of economic processes on transactions owes to the German economy both the use of ideal-types and the relational approach.
power and opportunities. For what concerns the legal elements entering production, he singles out (Commons, 1893): personal abilities; capital; monopoly privileges; legal rights. Actually, in Commons (1925) transactions always involve at least five actors: the two interacting individuals (individual A and B in fig.2), two non transacting individuals representing the opportunities not taken (opportunity costs, individual C and D) and the administrative authority in charge of regulating economic processes.

![Fig.2 the transaction scheme](image)

Commons did not introduce the notion of preferences, but some simple classical difference between use value and exchange value, which determines the opportunities of a transaction. The transaction is framed by legal positions that Commons adapts from Hohfeld theory (1919). The latter is perfectly relational, while Commons’ aim is to point out the role of the political administrative authority as a vector of change. His end is to describe property as a social creation, as a legal construct that can be adapted and modified. So property is embedded in social and legal relations. Therefore Commons includes some element of administrative control in his legal positions (Fiorito, 2010). The resulting framework is basically conflictual and based on imperfect opposites (never coinciding perfectly):

- right-duty;
- exposure-liberty;
- power-liability;
- immunity-disability.

To each legal attribute of A, some corresponding position of B determines a relationship of limits and reciprocation. To this reciprocal interaction, Commons adds the state and the two respective “opportunity costs” of supply and demand of respectively individual C and D (next best alternatives to A and B). Therefore, a transaction is a multilateral form of relationship.
The law and the working rules, constituted by practices and customs, integrate this framework. Actually, rules and institutions contribute to define the legal position and, at the same time, govern the dynamics of the transaction. Therefore, rules and rights are complementary to define the legal environment. Commons (1925; 1931) particularly focus on institutions and laws that are under the control of the government because his interest is in the political steering of society by modifying the legal positions of actors. However, he includes working rules resulting from social interaction, leaving room for our analysis (Commons talks of legal, moral and economic sanctions).

The transaction is also the framework of the process of evaluation, that is “oriented” by institutions and precisely by the working rules defining the respective entitlements (Tool, 1977). Institutionalism stresses the role of social evaluation instead of basing it on simple market process of neoclassical economics. That evaluation is affected by the complexity of relationships and by the specific arrangement of institutions. Moreover, such social evaluation underlines the role of individual positions, particularly wealth, in affecting outcomes.

Commons in this way reaffirms the distinction between freedom and liberty. The latter presupposes a legal framework and a legal capacity of the subject, that is to say, to be able to hold rights and duties. Therefore liberty cannot be defined without considering the respect of each rights.

5. Rights, the law and evaluation: giving priority to social law

Commons’ transaction framework can be expanded to highlight the development of effective rights and their effect on the distributional outcome in exchanges (rationing and managing transactions are not interesting at this point). The specific act of reciprocal recognition among individuals is the fundamental and effective foundation of their interactions. Therefore a right is an issue of reciprocal communication and agreement in a structured legal environment. It is not a simple tradable element. Therefore rights emerge and are defined in a transactional process and not a simple input of it. The element underlined here is that the cognitive process of recognition underlies any economic and social interaction. It affects the legal positions of players and that has an impact on the economic outcomes of the transaction (fig.3).

Fig.3 Recognition and economic outcomes

On the other hand, there are different kind of rights and rules that enter transactions. This perspective “from within” of the right as a moral power in a relationship implies a further theoretical aspect: it is not possible to sharply separate the property right from other kind of rights and liberties. The literature normally distinguishes human rights from social rights and economic rights. Property is part of the set of entitlements of a person. The fact of being tradable
does not make it totally autonomous from other obligations attached to it or to the whole personality of the holder. Property can be complex and involve specific duties (maintenance, safety, common benefits…). Therefore, the personality of a seller, the set of her entitlements and even the quantity of her endowments, affects the outcome of the evaluation process concerning the specific right traded (property of a good or the labour of the individual). It is not only relative scarcity that affects prices, but also the status of the interacting persons as well as specific context variables.

Economic rights are not limited to property. They involve all entitlements of the exchanging parties. E.g. they include the competences of the individuals, their reputation, etc. There also are all entitlements arising as an effect of the working rules. E.g. the way of granting the performance, or the penalties applied in case of unsatisfactory performance, incentives, etc. Shortly, all points normally included in contracts. But also social and human rights can enter the interaction, especially when it deals with engaging low-pay works. Human and social rights can interact with the economic. E.g. slavery reduces also economic rights of the slaves. Ethnic minorities are often discriminated also from the economic point of view; women often get a pay that is significantly lower than that of men. This kind of interaction is often analyzed under the label of discrimination. The fact is that very strong rights of one part face to the weakness of the other in a transaction can reinforce the former’s “power” and create a sort of “liability” in the counterpart, making the transaction less “horizontal”.

Fig.4 Rights affecting evaluation

A specific problem that can be studied is how the insufficient recognition of the juridical position of the counterpart leads to downplay her assets in the process of evaluation. That means that the process of evaluation, or that of fixing individual reservation prices is affected by the underlying process of recognition of the counterpart. If we consider our partner an inferior being, our reservation price for anything she can sell us is lower than the standard; the opposite when we seal with somebody we consider a prestigious person.

The act of evaluation of a specific property in a transaction can indirectly affect also the respect of other rights of the individual, including human rights. The typical example is that of a salary that is too low to assure a sign life to the worker. Even if that kind of labour is abundant, the pay should not be so low to harm the worker’s human rights. From this perspective a low pay is equivalent to insulting the person.
The consequence is that, in order to increase the fairness of exchanges, we need a policy able to foster the juridical position as well as the social position of everybody. Moreover, also some counterbalancing intervention can be welcome. The most typical example is the diffusion of education and literacy at the end of the nineteenth century that had the effect of reducing poverty. Today, we can single out the problem of migrants. Their situation needs an active policy to assure a balanced position in transactions.

Rights can be defined and enforced by the constitution and by formal laws. However, their origin and their effective definition and respect are the result of social interaction. Classic natural law sees natural rights as product of an universal moral law that induces individuals to respect other people’s positions in a reciprocal dimension. Reality shows the existence of relevant discriminations. As a consequence, the universal moral law does not necessarily grant equality. It remains useful to analyze actual situations as well as it can be a point of reference for state action.

Commons shaped the concept of transaction to include state action as an essential condition of exchanges. At this point, some insights supplied by Dworkin are particularly useful. The state is responsible for defining background rights. The latter constitute the standard that should be respected, at which everybody should be felt obliged of respect. Such rights should be derived from an idea of progress and improvement of civil society guided by the ideal principles that can be derived from the classical tradition. As a consequence, the definition of rights is not given by a static reciprocity. It is part of an evolving juridical framework in which the law has to assure the rights direction. The state is therefore an ethical state because it assumes the task of impressing a direction to the juridical evolution.

The second kind intervention is oriented to balance institutional rights. Similarly to what nineteenth century jesuit Taparelli argued (Mastromatteo and Solari, 2013b), there is some need to counterbalance the different weight of persons in order to obtain balanced transactions. This intervention can be performed by institutions that, affecting transactions, are able to reinforce the rights of weak categories of people (workers, women or migrants…). This is the case in favor of labor legislation that help reinforcing the position of laborers relatively to employers. Consequently, contrary to the liberal argument that liberalization increases efficiency, in economic systems of countries suffering from insufficient respect of labour rights can have a benefit by labour protection legislation.

6. Conclusion: commutative justice in economic interactions

The problem of social justice cannot be adequately tackled by state-centered theories that frame this problem as a purely distributive problem. The consequence of such theoretical frame is to surrender to any commutative injustice in the name of the efficiency of the market and to charge

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8 The problem of stating what is the just thing in the classical tradition is solved by assuming an external point of view to be able to study the balance of positions.
the state and other institutions of the insurmountable problems of increasing inequality. This is the theoretical mistake of Léon Walras, John Stuart Mill and, recently John Rawls. Also the procedural perspective cannot help much avoiding this under-evaluation.

On the contrary, the problem of social injustice primarily arises in the market from some unavoidable processes of unfair evaluation in which weak people are progressively set apart. Therefore, there is a serious problem of social evaluation in the market that is not purely economic and that social economists cannot avoid analyzing. The emergence of social law is a positive aspect of human interaction. It acquires an important role in economic interactions and it is the most effective legal element in transactions. However, it can also have shortcomings and some negative impact by perseverating or increasing inequalities that certainly are not functional to a fair functioning of the market.

The historical role of social and labour legislation was not to reduce inequalities by redistributing wealth (that was theorized by the liberal-progressive current of economics). The primary role of this legislation was to reinforce the juridical position of contracting parties in the market, assuring in this way a result closer to commutative justice. Contemporary reformers, busy in dismantling past institutions, apparently disregard this fundamental aspect.
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ASE sessions at the 2014 ASSA - Philadelphia, January 3-5, 2014