

Value and You Shall Seek

Mike McDermott, Australia

Abstract

In 2003, two Canadian researchers reported on their literature review of economic valuation textbooks and saw little relationship between how valuers / appraisers were taught and the theories of value that had been developed until then in the West. They further claimed that there was very little interest in the question of value amongst North American appraisers, and considered that to be a very dangerous situation. While the connection between that and the subprime mortgage crisis of 2007-2010 remains unclear, it is clear that the causes were complex, and consequently that ignorance may have contributed and, for as long as it remains, may do so again.

The year before, the economist Vernon L Smith and the cognitive scientist Daniel Kahneman had jointly won the Nobel Prize in Economics, by co-founding with other notable contributors the new science of behavioural economics. Since then, Vernon L Smith has gone further in his field of experimental economics to embrace neuroeconomics, a controversial interdisciplinary field which tracks the nervous system's behaviour when making economic decisions, but which has expanded its purview to how we make choices more generally.

This paper examines not only what light such research may throw not only on core aspects of the definition of market value, but also the broader field of non-market values which neuroeconomics has entered, with a view to pointing towards experimentally supported value theory providing richer understandings of both market and non-market values in general, and an ability to draw the lines between them in specific markets, and the global societies these values operate within and affect their decisions regarding

climate change in particular.

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Introduction

This paper builds upon a paper I presented last May at the FIG Conference in Ghana (McDermott 2024), but it can be read as a stand-alone. The subject requires a lot of quotations because it looks towards a much broader and deeper future for the valuation profession than hitherto, which will be necessary to address the global challenges ahead.

In 2003, a literature review was published about how American valuers (called appraisers there) were educated. It noted that:

“The literature reviewed here deals insignificantly with the concepts of value, and barely half deal with both economic law and principles of value. Two-thirds do not cover the history of value theory, and others do not touch on any stage of the development of value thought. A parallel survey of academic thesis and dissertations, dictionaries and lexicons revealed a similar neglect. ... Economists in the twentieth century have turned away from the political economy study of value to concentrate on the econometrical analysis of prices ... No wonder practitioners short circuit the practice of evaluation; the fundamental notion of value did not enter the classroom because it finds little or no foundation in the literature, with blatant errors in the theory of value and the history of value thought” (Cannone and MacDonald, 2003, pp. 113-114).

The year before, “Despite never taking a course in economics, Kahneman was awarded the Nobel memorial prize in economics in 2002 ‘for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty’” (Whiting, 2004)., and a few years after that the sub-prime mortgage crisis, which triggered the Global Financial Crisis, began in the USA.

~~A phenomenon in the real estate industry was central to the sub-prime mortgage crisis. To their eternal credit, as recorded in the Final Report of the~~
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National Commission on the Causes of the Financial and Economic Crisis in the United States, “Some real estate appraisers had also been expressing concerns for years. From 2000 to 2007, a coalition of appraisal organizations circulated and ultimately delivered to Washington officials a public petition; signed by 11,000 appraisers and including the name and address of each, it charged that lenders were pressuring appraisers to place artificially high prices on properties. According to the petition, lenders were “blacklisting honest appraisers” and instead assigning business only to appraisers who would hit the desired price targets” FCIC, 2011, p. 18).

This infuriated me, because as an “honest appraiser” in Australia I had been similarly blacklisted by a state bank, that bank later went bankrupt, and the state I lived in was virtually bankrupted in consequence, crippling its development for years afterwards. This occurred over a decade before the GFC, and yet the same pressures had prevailed in the USA and destroyed the lives of millions, in the same way I had witnessed when called upon to value the homes of others on behalf of the bank’s bankruptcy receivers over a decade before!

Would these situations have been any better managed if we valuers had better valuation standards, principles and practices based on the missing value theories referred to by Cannone and MacDonald? I suggest “yes”, as sound theoretical foundations can defend ethical behaviour. Such practices as described above are now declared unethical in various valuation institutes’ codes of ethics, but the pressures remain, and robust economic value theory is still needed to buttress those standards, and both expose and combat corrupt practices.

Furthermore, since these world-impacting events the breadth and depth of demands on the valuation profession have increased beyond the framing that facilitated the GFC. In fields such as the valuation of unregistered lands, natural capital valuation, social capital value etc. economic valuation advice is being called upon in domains that it has not intruded into before.

So now, we valuers need to broaden and deepen our visions to provide

balanced judgement, and for that we need broader and deeper value theory, Value and You Shall Seek (12894)
Michael Dermot McDonough (Economist) values, but values in general in order to discern which

values are active in which markets, and to what degree. As valuation is both an art and a science, value theory is best developed through value practice informed by the relevant arts and sciences.

Just as we valuers were central to the GFC, and were able to sound the alarm well before it happened, can we now be constructive in addressing these new challenges by both addressing current value theories, and empirically investigating them towards their further development?

In short, behavioural economics has pulled the rug out from under classical economics by showing that although persons behaving in the way it assumes may do so by being trained that way, markets in general usually operate very differently. To be professionals, when looking for replicable evidence we need to be able to discern which values drive the markets in question, and to what degrees, and to do that, we need to explore both current philosophers' (general) views of values and the current economists' (market/exchange) views of values, and how they inter-relate.

Although that task is far too vast to be enfolded in a conference paper, the longest journey begins with a single step, and this is not the first of those, but another along the way towards not only more skilful means in the valuation of unregistered land, but towards other broad and deep valuation challenges already here, and to come.

Economic Valuation

Despite Cannone and MacDonald's derisive view of the understanding of value theory from North American valuers' education (which does not mean that it can be applied to experienced valuers), a popular North American textbook began with similar insights to those of current value theories as sampled above:

"Valuation is at the heart of all economic activity. Everything we do as individuals or as groups of individuals in business or as members of society is influenced by the concept of value. A sound working knowledge of the principles and procedures of valuation is essential in all sorts of decisions"

Value and You Shall Seek (12894)
Michael Dermot McDermott (Australia) (Ring and Boykin, 1986, p.1).

However, as shown above, values aren't just concepts: they are hard-wired not just into us, but all of life itself. So, Ring and Boykin were right "on the money", so to speak about economic values, but general values go much further: "Valuing is not the same as 'thinking,' which is an all-body process predominantly located in the brain. There is no need to have a brain to be able to value: to be able to value requires only a living body ... being able to think is not necessary for being able to value. Even homo sapiens makes most decisions from the gut and not from the head ... Valuing precedes thinking by billions of years" (Ecks, 2022, p. 31), and as mentioned above scientists are tracking the neural pathways of human values. Unlike classical economics, these are included in behavioural economics:

"Behavioural economics combines elements of economics and psychology to understand how and why people behave the way they do in the real world. It differs from neoclassical economics, which assumes that most people have well-defined preferences and make well-informed, self-interested decisions based on those preferences ... Behavioural economics is grounded in empirical observations of human behavior, which have demonstrated that people do not always make what neoclassical economists consider the "rational" or "optimal" decision, even if they have the information and the tools available to do so" (Witynski, n.d.).

Consequently, when we valuers investigate the circumstances of sale, or any evidence we consider relevant to the valuations required, including all those for the valuation of unregistered land, natural capital valuations, social valuations and he like, shouldn't we be framing our decisions around modern scientific discoveries, not those they have proven to be mostly false, to interpret market and other evidence relevant behaviours?

If you consider the answer is "yes", then another new form of economics requires attention: complexity economics. This form of economics:

"[I]s not just another method, but a worldview that is different from the one of academics with neoclassical training. By contrasting complexity economics

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with neoclassical economics, the readers are induced to reflect on their own unconscious beliefs about the economic world and develop their own

approach to dealing with the pervasive complexities and uncertainties of reality” (Roos, 2024):

And furthermore:

“[E]conomics needs a new way of thinking. Specifically, it needs to analyse the economy and economic processes as nested subsystems of natural processes. This chapter draws upon complexity theory and hierarchy theory to propose a theoretical framework for a future economics, in which economic and natural processes are treated as homologous, overlapping systems of agents. This ontology has far-reaching epistemological and methodological implications for an economics of the future” (Murison Smith, F. 2019, p. 275).

To address Cannone and MacDonald’s challenges, and the broader challenges such as natural capital valuation, these are the spaces I consider the valuation profession needs to inhabit.

General Philosophical Views of Value.

In the Western philosophical tradition, the study of values is often called “axiology”. Not always, however. Some of the greatest minds relevant to the study of valuation have presented at Tanner Lecture on Human Values, among the most notable of which was Thomas Nagel’s 1979 lecture entitled *The Limits of Objectivity*, which remains relevant to we valuers to this day (Tanner 1979).

Being a Westerner, I am most familiar with the Western axiological tradition, but I should point out that my familiarity with Eastern traditions go back over 50 years now, and was greatly informed by my eight Asian overlands between Kathmandu and London from 1976 to 1980, when for my last seven my job included informing my passengers about the countries we were passing through. Later, I worked on leading other tours through India and other parts of Asia. In that way I got to know enough to begin to appreciate how much I did not know, particularly through a late friend of mine here in Kathmandu,

Hubert DeCleer (1940-2021), a fellow overland courier who later hosted Value and You Shall Seek (12894)
Michael Dermot McDermot (Australia) American scholar who came here to study the religions, the anthropology etc.

Some former scholars joined together to write a book in tribute to him (Quintman & Bogin, 2014). Consequently, this account is informed by local values, including but not limited to those expressed in my main lifelong interests in Vedanta, Kashmiri Shaivism and Vajrayana Buddhism.

I have no intention to hold myself out as an expert in any of those, and apologise if this review either contradicts elements of those traditions relevant to this topic, or omits elements that might have been brought to bear by scholars or practitioners of those disciplines. Even so, I know enough to agree “[T]hat the term *sat* has an epistemic sense of significance, *sattā* an ontological sense of significance and *śreya* a valuational sense of significance” (Mahesh et al, 2023, p. 36), and so have researched for axiological homologies to *śreya* in Western philosophy, the closest to which I consider to be the Greek concept of arete.

While they are aspirational, ideal terms, I here suggest that the developmental fields they refer to have some homologies with those of Western formal axiology (Hartman 1967). I caution that this suggestion may not withstand more rigorous academic scrutiny. Even so, it may remain useful as a high-level orienting approximation to embark on the topic.

In his 1967 magnum opus *The Structure of Value: Foundations of Scientific Axiology*, Hartman established three basic kinds of value. In hierarchical order of richness in qualities, they are:

- i. Intrinsic value: the value of an existent in and of itself; only applicable to living existents (valuations relating to *śreya*?/axiology).
- ii. Extrinsic value: an existent’s instrumental or use value; for example, tools, vehicles: attributable to both living and non-living existents (valuations relating to *sattā*?/ontology)
- iii. Systemic value: an existent’s value as part of a system. Formal concepts and normative values: rules etc. on how existents should be: attributable to both living and non-living existents (valuations relating to *sat*?/epistemology).

Formal axiology makes it quite clear that “We ought to value all persons and

conscious beings, including ourselves, intrinsically, and never merely extrinsically or merely systemically (Edwards, 2013, p. 34).

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In research beyond Hartman’s formal axiology, general values are increasingly being established as impacting, if not actually driving, everything we do. In a book published earlier this year, the articles therein “create a fascinating picture of how our brains and values are closely connected ... This Research Topic helps us see that our values aren’t just abstract ideas; they’re deeply woven into our brains, impacting how we think, decide, and act. It’s an exciting journey through the neural pathways of human values, offering a complete view that goes beyond labs and clinics into the diverse landscapes of culture, society, and our everyday experiences. (Miller et al (Eds) 2024, p.7).

To me, when it comes to recognising intrinsic values in particular, and as such assist in exploring the frontiers of the profession such as the valuation of unregistered lands, natural capital valuation, social capital valuation and the like, the potentially most practical of the new theories of value is that created by Stefan Ecks, co-founder of Edinburgh University's Medical Anthropology programme. The ethnographic field work he did to develop his theory included here in Nepal, as well as in India, Myanmar, and the UK.

In his 2022 book “Living Worth”, he begins by showing how “the ground of all valuing is embodied being--in--the--world and that a general theory of value reaches beyond humans”:

“To create value means to enhance embodied life. Value is created when lives are made better; but not all actions that claim to make lives better actually do so. I conceptualize embodied value practices as biocommensurations: social practices that allow value to be measured, exchanged, substituted, or redistributed. Through different case studies on depression and the global circulation of psychopharmaceuticals I show how the value of lives and the value of things are entangled.

Previous value theories assume that humans are the only creatures that value. Both philosophical and economic value theories take for granted that valuing belongs exclusively to humans. But if life is value, then valuing is what all living beings do.”(Ecks 2022, p. 1).

As in our own profession, the essence of his approach is to compare like with like. In his predominantly intrinsic valuation field, he approaches this task by asking the following six questions:

“What makes these entities similar?”

What is the degree of similarity between them?

How are these similarities relevant?

Why are these entities similar?

To whom are these similarities relevant?

What is the pragmatic operation that the comparison makes possible?”

(ibid).

Ecks adds that *“There are five further contextual dimensions to how value is established:*

1. *Status/power differences between A and B:*
2. *Proximity between A and B:*
3. *In/dividuals in transactions:*
4. *Time:*
5. *Innerworldly and outerworldly orientations can come into play:*

There are many rich ideas in this new theory of value that have resonances not only with our professional principles and practices, but also transculturally, allowing for different values to be recognised and addressed in accordance with the way those values are weighted and activated in different cultures and, in consequence, their markets. In practice, Ecks’ expansive value theory may well allow for a recognition of the complexities of values themselves and the complex interplays between them, reinstating intrinsic values as the most important, as in formal axiology, and thereby providing a framing to better address the challenges we valuers face in our new domains.t

Natural Capital Valuation

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Through the above advances in value theory, both in general values and economic ones, we can begin to appreciate how insufficient the reductionist core assumption of classical economics of the self-interested economic actor is to address, for example, natural capital valuation (NCV).

NCV is a matter of urgent global importance. For example, the first priority of the World Bank's Environment Strategy 2012-2022 was to institutionalise "Wealth Accounting and Valuation of Ecosystem Services global partnership [and] support countries valuing their natural capital assets like forests, coral reefs, and wetlands and incorporating them into their systems of national accounts. (World Bank 2012, p. 3). However, they found that attempts at implementation encountered "a multidimensional spectrum of motivational and contextual factors that go far beyond broad classification into preference economization versus preference moralization" (Wanek et al. 2023), and "an enduring disjunction between vision and execution in this field: the promises simply do not materialize. Economizing nature proves to be extremely complex, raising not only technical hurdles but also intractable conceptual and ontological issues (Maechler and Boisvert, 2023, p. 118).

Well, they also involve intractable axiological issues, and the fact they are ignored is symptomatic of the problem spaces value theories should address. In sum, wickedly difficult epistemic, ontological and, as Mahesh pointed out above, *axiological* issues, which are those addressed in my 2019 book, "Wicked Valuations" (McDermott 2019), and more recently (with a narrower focus on intrinsic valuations), Ecks (2022).

The term "wicked" means "wickedly difficult":

"A wicked problem is a complex issue that defies complete definition, for which there can be no final solution, since any resolution generates further issues, and where solutions are not true or false or good or bad, but the best that can be done at the time. Such problems are not morally wicked, but diabolical in that they resist all the usual attempts to resolve them" (Brown, Deane, Harris and Russell in Brown, Harris and Russell 2010, p. 4).

Natural capital valuation includes suites of wicked problems, so when addressing a natural capital valuation, along with the questions Ecks poses

Value and You Shall Seek (p. 289)
Michael Dermot McDermott (Australia), "what is the best that can be done at the time?" In so

asking, one is asking for value judgements of what “the best” actually means. For instance, the best for whom? And “best” in the sense of what kind of values: intrinsic, extrinsic, systemic, or combinations of all three?

Addressing natural capital valuation via empirical evidence and adequate value theory, which traditional economics does not provide, has the potential to open such inquirers up towards the real world, and thereby competent to act not only in the wicked problem natural capital valuation space, but also even more competent in the problem spaces encountered in market valuations, particularly through the deeper insights new fields such as behavioural economics can provide: but only if we let them.

Conclusion

Value and you shall seek. Our minds are value hunters, swimming in a sea of values. We notice from our values, for our values. By focussing our attention, our values frame our search spaces and thereby what we are likely to extract from our hypercomplex reality. Therefore, while it’s true we don’t so much see things as they are as we see things as we are, we see as our values frame and form what we see. Only then does reasoning enter our minds’ activities, and can, in turn, reshape and reorientate some of our values.

I consider this understanding to be a necessary precondition to sustainably addressing the interplays between economic and philosophical valuations, and thereby becoming better able to address climate responsive land governance and disaster resilience in general, and natural capital valuations in particular.

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