

On Knowing and Doing

Or; Rationality and Its Practical Limits in Organizational Choice

Or; Knowledge and Intuition in Decision Making

Or; The Powers and Limits of Policy Analysis

Overview

Rationality and Administrative Choice – A Review [Simon, Updated]

- *Area 1* -- Formalistic Analysis and the Federal Government
- *Area 2* -- Expertise and its Limitations
- *Area 3* – On Knowing and Redoing; Adaptation as a Rational Strategy

<*A Hypothetical: Traffic Safety in the Land of Libertaria, 1995*>

Rationality and Administrative Choice

*“Does Reason Rule the World, or Does the World Rule Reason?”**

*“**Should** Reason Rule the World, or Should the World Rule Reason?”***

- **A.** Is Rationality Always the Ostensible Norm in Organizations?
- **B.** The Limits of Rationality – The Idea of Bounded Rationality
- **C.** Choice Strategies Under Conditions of Bounded Rationality

*Anon., 2005

** Anon., 2005

Rationality and Administrative Choice:

A. Is Rationality Always the Norm?

- In most organizations, it's usually the dominant culture, nowadays
 - “Let's reason together”*
- It's not, of course, the *solitary* culture
- . . . And in some times and places <think of some>, it's not even *dominant*

*Lyndon Johnson

An Aside on Herbert Simon

- **Simon the Producer**
 - Nobel Laureate in Economics, 1978
 - Author of 1000 papers
 - Father of Artificial Intelligence
- **Simon the Interdisciplinary Man**
 - PhD in <guess what field, Shirley>
 - Also studied physics in grad school
 - Top professional society awards in Psychology, Economics, Political Science, Business Administration
 - (First job: planning department in a city manager's office)
- **Simon the Administrative Theorist**
 - Wrote Administrative Behavior in 1947 – basis of his Nobel Prize
 - Updated it in 1997, with significant new commentary
- **Simon the Mensch**
 - An amiable fellow, but . . . does the tidiness of a man's office reflect his soul?
 - A blemished record on emerging technologies

Rationality and Administrative Choice

B. The Limitations of Rationality

*“Economic Man” is just a straw man, but it must be the liveliest straw man in human history”**

- “Incompleteness of Knowledge”
- “Difficulties of Anticipation”
- “The Scope of Behavior Possibilities”
- (I’d add) The Limited Attention Span
- And Besides, Context Also Matters (Simon, ’97):
 - Agenda-setting
 - “Representing the problem” [see p. 124 ff]
 - Generating Alternatives

Anon., 2005

C. Strategies Under Bounded Rationality

*“Administrators satisfice because they have not the wits to maximize”**

- Satisficing; settling for the “good enough”
- Employing “simplified models” of the world
 - see next page, on the role of intuition
- (from Lindblom) “muddling through,” “incrementalism”
- (from nobody, yet) proceeding via deliberate trial-and-error**

*Simon, 1997

**Hobby-horse alert!

An Aside on the Role of Intuition

- Intuition – a source of rationality?
 - It's "simply analysis frozen into habit"* -- e.g., the chess master vs. 52 rubes
 - It integrates personal experience over time
 - It evolves; it features the "survival of the fittest responses"
 - It amounts to the "reasoned feel of the expert"
 - <Blink>! It works *better* than deliberate analysis
- Intuition – a source of ignorance?
 - "Iraq surely has lots of WMDs"
 - "Leeches will heal many ills; leeches will heal no ills"
 - "You've just got bronchitis – go home and rest"
 - "That altitude alarm is wrong, I'm sure we're at 1000 feet"
 - "We can make Enron's stock price rise indefinitely"
 - "It's a coincidence that Brazil and Africa look like adjacent puzzle pieces"
- The key problem – whose intuition can be trusted, and when?
 - (This needs an *institutional* solution, I suspect)

*Simon, p. 139

Area 1 -- Formal Analysis and the Feds

*"You can lead the House to data, but you can't make it think"**

- **A.** PPBS, ZBB, and GPRA – loud fizzles
- **B.** APA – long-sustained reform
- **C.** C/B Analysis – sustained reform
- **D.** Other Initiatives
 - Impact Statements – a soft fizzle
 - Regulatory Budget – an idea with sizzle?
 - FACA – the stick that doesn't swizzle

*Anon., 2005

Area 1 -- Formal Analysis and the Feds

A. Fixing Program Planning, Budgeting, Performance

- 1960's: PPBS – Quantify and Conquer, at least in DoD?
- 1970s: Zero-Based Budgeting (ZBB) – Making Reasoned Budgets
- 1990's: Government Performance and Results Act (GPRA)
- Combined impact: very modest – widely seen as giving temporary edge as rules of the game change, others adapt to the new tools

B. The Administrative Procedures Act (APA) of 1946

- Decision Type 1 -- Adjudicatory Decisions
 - Brings formal trial procedures into the agencies
- Decision Type 2 -- “Notice and Comment Rule-making”
 - An intelligible “preamble” for the Notice of Proposed RM
 - A “statement of basis and purpose”
 - Elicitation of outside comments on every proposed policy
 - Formal agency responses to comments about data, analysis, assumptions
 - Often, an “advanced notice” to elicit general ideas
 - Effective enforcement by judges in subsequent appeals hearings
- Upshot – A Solidly Entrenched Reform, Lots of Work for Contractors

C. Cost-Benefit Analysis

- A Major Long-Term Trend
 - Regulatory analysis under Carter Administration
 - Regulatory Impact Analysis under Reagan and Bush 1 Administrations
 - Heightened Role of President's Cost Police
 - Much employment for economists inside and outside government
- Best seen, perhaps, as tipping a bit toward the budget office [OMB] in the historic agency-OMB tussles over excessive costs
- Limitations?
 - OMB Can't overcome politically popular program decisions
 - OMB is widely seen as partisan
 - OMB is subject to some "gaming" by agencies – e.g., "salami-slicing"

D. Other Efforts to Rationalize Decisions

- Government by Impact Statement
 - Environmental Impact Statement
 - Family Farm Impact Statement
 - Family Impact Statement
 - Small Business Impact Statement
 - And 7 more . . .

- The Regulatory Budget Proposal
 - Controlling “off-budget” burdens on the economy

- The Federal Advisory Committee Act (FACA)
 - Rarely used to vet, improve analysis

Area 2 --Experts as Agents of Rationality

*“Should the experts be on top, or on tap?”**

- **A.** Expertise in the Federal Government
- **B.** Formal Knowledge Appraisal and its Limits

Frequent question, 1960's

A. Experts and the Federal Government – Four Channels

- Hire Experts into the Rulemaking Agencies
 - Helpful, but there are two little problems – quality and credibility
- Require Public Analyses by the Decision Makers [e.g., NPRM, EIS]
 - Helpful, but there is a little problem of trust
- Employ Outside Contract Analysts
 - Helpful, but there is a little problem of trust
- Engage Outside “Blue Ribbon” Expert Panels
 - Helpful, but there is a little problem of pertinence

B. Knowledge Appraisal and Its Limits

- Knowledge Appraisal – Who are the “Credibility Specialists?”*
 - National Academies**? Health Effects Institute? Nat’l Instts of Health?
 - <Is MIT a Knowledge Appraiser? Why not?>
- Is Their Use Dependent on Enlightened Sponsors?
 - Often, yes; sometimes, no
- What Do the Credibility Specialists Have in Common?
 - Surprisingly little, for some reason

*Thanks, Sandy Weiner

**Self-deception alert!

Area 3 -- Adaptation as a Rational Strategy

*“Is it really so rational when current policies are soundly based on aged knowledge?”**

- **A.** Does Adaptation Happen?
- **B.** Does *Planned* Adaptation Happen?
- **C.** Why Doesn't It Happen Routinely?

Anon., 2005; Hobby-horse warning!

Area 3 -- Adaptation as a Rational Strategy

A. Does Adaptation Happen?

- Yes, Change Happens
 - But isn't it usually *ad hoc* change?
 - And isn't it often based on an *unimproved* knowledge base?
 - “Isn't ‘Trial-and-error’ better than ‘Error-and-Error?’”*

*Anon., 2005

Area 3 -- Adaptation as a Rational Strategy

B. Does *Planned* Adaptation Happen?

- Lots of People Say that it *Should* Happen
- I Can't See Much, in Federal Regulation
- But the Exceptional Cases Are Surely Interesting
 - NAAQS
 - Airline Safety?

Area 3 -- Adaptation as a Rational Strategy

C. Why Doesn't it Happen More Often?

- Darned If I Know
- Some Simple Theories
 - Bureaucracies Just Always Resist Change?
 - It Messes up Public Enforcement Efforts?
 - New Rules are More Seductive Subjects Than Existing Ones?
 - Affected Interests are Indifferent to “Sunk Costs”?
 - It Undermines Old Compromises?
- How Would One Induce Planned Adaptation, If One *Wanted* To?
 - Replicate Air Pollution Standards [NAAQS] Processes?
 - Enforce Benchmarking?
 - Address One Rule a Year?