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

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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
Rationality and Administrative Choice

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
Rationality and Administrative Choice

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!
Rationality and Administrative Choice

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 fizzes

• 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
Area 1 -- Formal Analysis and the Feds

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
Area 1 -- Formal Analysis and the Feds

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”
Area 1 -- Formal Analysis and the Feds

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
Area 2 -- Experts as Agents of Rationality

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
Area 2 -- Experts as Agents of Rationality

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?

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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?