

## THE MORAL ENVIRONMENT OF PUBLIC POLICY

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It is very nice to be with you again. As many of you know, I am an old land grant man myself. I think many of you are from that dispensation. When I was a young man I taught in Ames at Iowa State College, and I always say that it was there I was indoctrinated with the "Morrill" point of view. So I thought I would talk to you this evening about what I call the moral environment of public policy.

I define the moral environment as that part of human behavior and interaction which criticizes people's preferences. I insist that all values we know anything about are human values. They start off, as every economist knows, with preferences enshrined in indifference curves. You may remember, I have complained that economists seem to believe in what I called the Immaculate Conception of the Indifference Curve, until a Jesuit friend told me I had the Immaculate Conception wrong. Anyway, we do seem to believe preferences come from heaven in some mysterious way and don't have to be inquired into.

The fact is that all human valuations beyond extremely primitive genetic structure are learned. We come into the world liking milk, mother, or terry cloth, or some reasonable substitute. Then of course, everything else is added on to us by learning. Part of this learning process is by disappointments, that is, making mistakes and then learning from the experience of failure; we never learn anything from success except what we knew already and that doesn't help us much. We also learn from criticism, both our own and other people's and this is, in a sense, the moral environment. This starts with the raised eyebrow that the freshman meets when he or she makes a gaffe in the dorm.

The raised eyebrow is probably the most powerful sermon there is; this brings you into line very fast. Certainly any subculture develops an ethos, which is a critique of preferences of the members of it. That is, if you belong to a motorcycle gang and you don't really like motorcycles, you won't last very long and there will be raised eyebrows all over the place. Soon, you will either get out or you will be pushed out. We find this in our own professions. There are things

that even professors can do that get them fired, even if they have tenure; it occasionally happens. There are certainly things that politicians can do, and they won't get re-elected.

You can look at this as a series of levels. First-order ethics is saying I think your preferences are lousy or wonderful as the case may be. If you have a preference for heroin or murdering people, I don't just say, "How interesting"; I am not really a relativist, I say your preferences are lousy. No question about it. This is ethical critique.

At a higher level, what I call second-order ethics, is to say, "I think your ethics are lousy," especially, of course, your criticism of me. These things interact all the time in society. They are part of what I call the integrative system, which ultimately dominates all other systems in society. That is, you can't sustain either exchange or markets or political structures unless they are legitimated, that is, unless they are part of the ethos. When the ethos changes, these institutions change too.

Once when I was in Leningrad I was rather amused to see that the old stock exchange is now a palace of culture and rest. In that society political and ethical changes made the capital market illegitimate. It couldn't survive under those circumstances, just as slavery is no longer legitimate and cannot survive.

As we look toward the public policy aspects, we run into a very awkward fact. Everybody has rather different values and valuations and every group has rather different ethics and a different ethos. It is not all a uniform set of preferences. There isn't even a uniform set of ethical systems. Yet the political system has come to grips with how you coordinate the different valuations of different people.

I have argued that there are three main methods of doing this in society. I use the word "coordinate" advisedly, because we do not all come to the same answers. Coordination is not the same thing as agreement by any means. I have been calling these the three "P's." I am a great trinitarian. I believe everything comes in threes as over against twos in dialectics! These are "prices," "policemen," and "preachments." Prices, of course, are the market.

We are mostly economists here, so we are all familiar with this. It does coordinate the different valuations of different people in quite extraordinary ways. Remember the old nursery rhyme, "She liked coffee and I liked tea, and that was the reason we couldn't agree." That was the reason, no doubt, why they both went to the little brown jug! The wonderful thing about having a market is that then you don't have to agree. In fact, I like tea for breakfast, and my wife likes coffee and there is no problem at all. I have tea and she has coffee.

Mancur Olson, I think, has pointed out that the great ethical virtue of the market is that it economizes agreement. You don't have to agree if there is a market because the market, in so far as it provides private goods, will satisfy a great diversity of valuations. I think this is a very important point.

On the other hand, in spite of my friend Milton Friedman, and some of my best friends are Milton Friedmans, the market really can't do everything. There are public "goods" and public "bads," so we have to go to the second "P," which is policemen or politics.

The political order organizes society essentially through legitimated threat. That is, the market is exchange; it has a few underlying threat elements in the enforcement of contracts, and it has a legal framework, but on the whole, the threat element is very minor in the market. The great virtue of exchange is that it has more vetos in it than the United Nations. If I don't want to buy something, I don't have to. If I don't want to sell something, I don't have to. In a free exchange each of the parties has a veto. Then, of course, there are the things you cannot handle this way, and you have to have a legitimated threat system. Thus, we have to have taxes, and I will be very frank with you, I pay my income tax at least 95% out of threat. An easy measure of this is how much would you contribute to the federal government if it was done through the United Fund. With a little bit of pressure I think I might contribute 5% of what I do now, but not much more than that.

If we were all honest with ourselves, I am sure we would all agree on this. On the other hand, in a certain sense, as a legitimated threat we will put up with taxes if everybody has to put up with them. The reason for politics, as a good many people have pointed out, is what is called the "freeloader problem." That is, if you leave public goods to free exchange or to the grants economy, there won't be enough of them.

There is also a certain principle that if you have too highly legitimated a threat system, you get too much of it and there is a worry about that. There is a certain tendency for governments to be addictive of themselves, rather like heroin, and to grow all the time. Then, of course, to some extent this is what the American Constitution was all about. The founding fathers were not anarchists, they thought you had to have a government, but they also thought you shouldn't have too much of it. This is where the whole division of powers and all that kind of stuff comes from.

In a sense this country is designed so that anybody can stop anybody doing anything. There is something to be said for this, if otherwise you are going to do too much. There is quite a tendency for governments to do too much and almost for everybody to do too much. One of the famous stories, probably apocryphal, is that Eisenhower once said to Dulles, "Don't just do something, stand there."

There are very significant occasions in life where the right thing to do is nothing. This is often the hardest thing to do, even when it is the right thing to do, because we have this enormous itch to be active and do something. So as I say, I have a certain fondness, especially as a naturalized American, for the Constitution and all that and for the kind of political philosophy which regards the government as what you might call a necessary evil.

There is no doubt that the American political system has had a very extraordinary success. I think we are now the eleventh oldest country in the world in terms of continuity of political system, though it is certainly a little hard to say when some of them began. We are certainly older than the French Revolution, not quite so old as the Glorious Revolution of England, and certainly very much older than the vast majority of countries in the world.

We have had quite an astonishingly stable political system. Even the Great Depression, which was an enormously traumatic experience for this country, really produced no basic changes in the political system. In fact, it took the Great Depression to get rid of Prohibition! The party system is the same, the electoral system is the same, we have never even gotten rid of the electoral college. It has lasted for 200 years doing absolutely nothing, which I rather like. It reminds me of my old college at Oxford, New College. It has just celebrated its 600th anniversary, which is why it is called New College. I was absolutely delighted with a history of New College which I have just read, because the historian couldn't deny the fact that for 500 years the college did nothing whatever. It did not produce anybody except a long line of undistinguished country clergymen, and the Fellows were corrupt and depraved and just spent all their time drinking in the common room.

I suspect that the secret of the American political system is that we don't really take it seriously. That is, it has what I call a ritual dialectic, rather like sports. You see, sports are a ritual dialectic. I almost hate to tell you this, but it doesn't really matter who wins a football game, for if it would really matter, you would poison the opponents' beer. But you do have to pretend that it matters who wins, or the game falls apart.

Politics are very much like a football game. That is, it very rarely matters much who gets elected. If it ever did matter, the system would probably collapse. This, I think, is the secret of the success of the American political system and the very substantial success of American society. It all comes out of the fact that we are incurably frivolous people and this means we don't get into serious rows. Every time when there is a row, somebody tells a joke and the whole thing dissolves. Whereas in many other societies, which I won't name, where politics are deadly serious, it can be terribly destructive. The awful example is Cambodia, where politics has destroyed the society.

The inability to resolve conflicts and the inability to take things a little frivolously and easy is enormously destructive. So, I think we have an enormous amount to be thankful for in that we are a light-hearted people. It sounds better than frivolous. When things get too serious, somebody will say something that is funny.

The third "P" is, of course, preachments. This is the ethos, the moral involvement and the moral order and, as I say, there is a great deal to be said to show that this really dominates the other two. All this leads into the evaluation of public policy, which is, I think, the major interest of this meeting. This is a problem of extraordinary complexity.

It is not only because everybody has their own ideas and values about it, so that we have this coordination problem, but also because we are dealing with systems of very great complexity, including us. After all, the human brain has something between 10 and 100 billion neurons. Biologists can't count, whatever it is; anyway, let's make it 50 billion. That is a hell of a lot of marbles. Even though you are supposed to lose 100,000 a day, even at the age of 70, I think I still have a lot left.

This is a system of quite inconceivable complexity. When you add to this all the human interactions and environments we can be almost overcome by the complexity. So, of course, we try to simplify it. In fact, in a sense, I almost define learning as the orderly loss of information. We all have this huge, buzzing information thrown at us all the time, even in the womb, probably, and certainly after that. To reduce it to some sort of image that we can handle, we have to filter it out and organize it and maybe quantify it, which is one way of losing information. This is necessary. On the other hand, we also ought to be aware that it is rather dangerous, because you can lose too much information and you can oversimplify and there are very real dangers in this.

Particularly, there are dangers in an unexamined quantification. I have been going on a bit of a campaign lately about numerology, and the assumption that science is measurement, which it isn't at all. Measurement is certainly one of the methods by which we acquire better information, but there are about a dozen numbers in the real world. There is  $e$ ,  $\pi$ , the velocity of light, Planck's constant and 0, 1, 2, 3, 4, 5, 6, up to 7 maybe, but after that it is all a figment of the human imagination. In the woods, nobody counts anything. Well, birds I think can count eggs up to 4, if they are very clever birds. But what you have in the real world is essentially shapes and sizes. That is, the real world is topological rather than numerical.

The trouble is that our minds find it very difficult to handle complex topological structures without a good deal of palaver, particularly in more than 3 or 4 dimensions. And, of course, it is a very convenient property of numbers that they can be mapped into topological structures of considerable complexity. That is why statistics

aren't silly, they are just dangerous. My favorite example of this is up at NCAR (the National Center on Atmospheric Research) at Boulder (the Vatican of meteorologists) and they have one of the biggest computers in the world in the basement. I am not sure that it does them much good, but it adds to their prestige. Anyway, in this computer there is the latitude, longitude, and altitude of a very large number of places on the earth's surface. You can define the position of any point on the earth's surface with three arbitrary numbers, but then all measurement numbers are arbitrary.

This very clever computer can print out maps of the world in a polar projection from any point, which are very nice to have. If it printed out the numbers they wouldn't tell you a thing. Nearly all numerical information has to be translated in topological terms if it is going to be meaningful. Economics, for instance, has gotten into a kind of Newtonian numerical bog from which it doesn't seem to be able to emerge. I am very distressed about it.

We see how careful we have to be about using numbers when we look at concepts of efficiency. We often think that the test of something is whether it is "efficient." Then you look at the efficiency concepts and see that they are only significant if efficiency is measured in terms of human valuations. There are no values in nature, except what we impose on it. At least if there are, we don't know much about them. There may indeed be "One far off divine event towards which the whole creation moves," as Tennyson says, but we don't know much about it.

Certainly nature doesn't mind having an endangered species; there are 999 extinct ones for every extant one. Nature didn't care about the dinosaurs, and nature doesn't care anything about the blue whale. I do, about \$25 a year worth, but the blue whale doesn't give a damn about me, and actually the blue whale doesn't even give a damn about the blue whale. I am sure it doesn't have the slightest idea that it is an endangered species. You have to be careful not to impose more values on nature than it can really take.

We run into similar problems with things like thermodynamic efficiency. There is a certain movement today toward an energy theory of value or maybe even an entropy theory of value. This seems to be garbage. You can have processes which have negative net energy but if the energy which goes in isn't worth much and if what comes out is worth a lot, they may be fine in terms of human valuations.

All processes must be evaluated from the point of view of human values. I am certainly not saying that accounting values are a sufficient and adequate measure of human values, although they may not be a bad first approximation. In all political decisions, and also in business decisions as well, accounting values are modified in the overall decision making process. Even banks don't hold their assets

all in the most productive form. People have liquid assets, there are uncertainties, and anybody can increase his earnings by going toward the edge of the cliff, but we don't do it; we draw back. So accounting values are only part of the picture, quite an important part but by no means the only part. We all make decisions which result in having a lower accounting net worth but a higher net worth presumably in the more ultimate values, whatever they are.

What all this is leading up to is that I am on a bit of a rampage now in favor of developing what I call "normative science" or perhaps it had better be called "normative studies" because science is a word that has gotten a bit soiled, I won't mention any names. I argue that a discipline of normative studies is possible and that this means essentially applying certainly the ethic and the method of science to two questions. The first is what do we really mean by things going from bad to better rather than from bad to worse? And we can explore this. This is something that is part of the real world, involving evaluations of total system. We are not going to come out with single answers.

We will always have the coordination problem, but we can make better evaluations rather than worse. Then, of course, once we find out what you mean by going from bad to better, the second question is how do you do it? This is what I call my hundred-year project. I probably won't finish it, but anyway it suggests that it is a very important field of human study, in which the ethic and the method of science can be used.

We have quite a bit of normative studies already lying around the landscape, though it hasn't been brought together very much. Thus, as all economists know, we have welfare economics, which was a very serious attempt on the part of economists who answer the questions, "What do we mean *as economists* by things going from bad to better rather than from bad to worse?". I know that Samuelson pointed out that there isn't really any way to say, but at least the exercise was very valuable. It clarifies a lot of thinking, and it came up with concepts like the Pareto optimum which are not in any sense absolute but which are extraordinarily useful.

If you have a change which makes some people better off and nobody worse off, that's nice, although [of course] it assumes that there is no envy and no greed. In fact, economists are terribly nice people even if they are a bit naive, because only nice people could come up with a Pareto optimum, which supposes that when you get better off and I do not, I should be delighted. Economists assume there isn't much practice of the seven deadly sins. Still, as you know, there is malevolence in the world and there is envy and greed and gluttony. Economists also assume that people don't have any of the seven cardinal virtues, either, but that is another story.

I have outlined a few principles which emerge which can be part of a second or even third order ethics. There has to be a critique of virtue because if you aren't careful, virtue can do more damage than vice. So what do you look for? The first principle I have called the *principle of the best alternative*. This is good economics. You look over the field of choice and you look for the best. The dangers of second order moralists is they tend to think if you prove something is bad, that is a sufficient argument against it, which it is not. You always have to show that something else is either better or worse. There is a kind of "prohibition syndrome."

I came to this country under Prohibition. We had Prohibition and it turned out, I think in the long run, to be the wrong answer to a very real problem. Alcoholism is still a terribly real problem and does an enormous amount of damage. But Prohibition was too easy a solution. I even worry about ERA although I am a very staunch advocate of women's rights.

My wife is now teaching 2,000 miles from where I am, so we are sustaining two households 2,000 miles apart, which isn't exactly energy conserving, but I am very glad she is doing this. I was one of the first members of the Committee on the Status of Women in the Economics Profession of the American Economic Association. But I still worry about simple solutions that can easily distract attention from the complexity of problems.

The second principle may be called the *principle of net goodness*. Virtually everything comes along with goods and bads as joint products. It is extraordinarily hard to think of anything which is purely good or purely bad. Here we have this nice electric light, but I am sure it is produced by some power station that is belching something into the atmosphere, at least CO<sub>2</sub>.

I drove here in my little Honda, which I enjoyed, it was a beautiful drive, certainly a good. But it polluted the air going through Denver. Everybody like myself who has a happy marriage knows perfectly well it has a few sour things in it. So, the joint production of goods and bads is a very fundamental principle. It means you always have to do cost-benefit analysis on a broad scale and evaluate both the goods and the bads.

The third principle — and these principles are all closely related — is what I call the *principle of maximum goodness*. Every virtue becomes a vice if you have too much of it. That is, if you take a slice of the "goodness function" along one of its variables it would be something like a parabola. Riches are a very good example. When people are poor, there is very little doubt that getting richer is a movement from bad to better. When people are filthy rich, which means anybody twice as rich as I am, then getting richer may be worse. It may corrupt people. I am not certain this doesn't even go for health. Health is certainly good up to a certain point. But I think



we all know people who are almost indecently healthy, and make a bit too much of it.

I remember having a big argument about this with Clyde Kluckhohn, the anthropologist. He felt that there were these absolute things like health and I was arguing that at least tuberculosis produced a certain amount of wonderful English poetry. If we didn't have a little bit of ill health, it might result in an insensitivity to certain things. But still I am prepared to go in for health, obviously, a very long way.

The fourth, a very interesting principle, which is also a very tough one, is what I call the *principle of moral perspective*. This is the principle that what is near tends to be dear. I supported my children in college and even now they are going on to graduate school, but I haven't supported any Chinese peasants in Szechwan. They are too far away. It is a very reasonable principle, and is somewhat related to the general principle of perspective in perception. The near person looks bigger to me than the distant one.

There is obviously a very good evolutionary reason for this. If the thing that is just going to eat you is a foot away but looks the same as if it were a mile away, you wouldn't last very long, so obviously natural selection makes for perceptual perspective. On the other hand, in visual perspective we know that in a certain sense it is an illusion. The near looks bigger to me than the far, but it isn't really bigger, it is just the same size. We know this and somehow make allowances for it. And you wonder if there isn't a rather similar principle in moral perspective, that in a sense it is a necessary illusion. Certainly everybody who loves everybody equally doesn't love anybody very much out of 4¼ billion people.

There are tough moral problems here. Just where "dearness" disappears is a very critical problem. I argue that it shouldn't ever quite disappear, I should be just a little concerned about the peasant in Szechwan, even though I don't know him. We recognize this. We have foreign aid, ½ of 1% or something, not very much. And there is my \$25 for the whale, so we do overcome the rigid principle of moral perspective.

The fifth principle is that of the *emotional distortion of human valuations*. This is a tough one. When people get angry they tend to make bad decisions, and when they are calmer, they make better decisions. We are cluttered up with all these adrenal glands or something, which make us upset or even euphoric. Euphoria can also create very bad decisions. We observe this occasionally with young people in love. Intense romantic love does not always produce the best decisions regarding marriage.

The problem of emotional distortion is a particularly difficult one because we put a certain value on emotion for its own sake. Who wants to be a cold fish? I have sometimes said that the economic

man has a lot of virtues, but you wouldn't really want your daughter to marry one. You want somebody who is just a little crazy and goes barefoot in the park or something, or writes poetry or paints or does something a little idiotic, or even goes backpacking or even skiing. As long as people ski, it seems to me there is hope for the human race.

I can't think of anything more foolish than just going up a hill and sliding down in the snow. The only thing that is crazier is golf; Conrad defined a golfer as a man with an impediment in his walk. Still, I am glad people like skiing and I am glad they like golf as long as I don't have to do it. But it is a worrying problem.

I worry about emotional distortion, particularly with the radicals, even though some of my best friends are radicals, because they tend to be dominated by the hatred of evil rather than by the love of good. These are really very different things. I am not coming out against the hatred of evil altogether because this creates a certain amount of steam, but if you don't have the steam engine of the love of good to put it in, then you are in trouble.

I have seen this often with my radical friends. My wife and I had a very strange relation with the SDS, the Students for a Democratic Society, in the 1960's. My wife asserts it was founded in our living room in Ann Arbor. Tom Hayden was a student of mine and these youngsters used to come out to our house because they knew they wouldn't get in trouble there. We always had a big New Year's Eve party and they all came out to that and after we saw the New Year in then I went to bed, but my wife stayed up with the kids and that's where they plotted the Port Huron Conference which started the SDS. The SDS died in our basement in Boulder. They had their last conference in Boulder about 1970, and they asked if they could meet in our house again, because they trusted us.

The organization fell apart because everyone was against something and nobody was for anything. The trouble is if you are dominated by the hatred of evil, you get to hate it in other people, which means everybody, and things fall apart. The radical hates evil too much and the conservative loves maybe the wrong kind of good, say particularly his own good, so there is a real dilemma here. How do you balance the hatred of evil and the love of good?

The sixth principle, which I am sure you all know about, is what I call the *principle of hierarchical corruption*. Every organization is a device for preventing information reaching the executive, that's what it is for. Absolute power corrupts absolutely, and the only trouble is that impotence also corrupts, and absolute impotence corrupts absolutely. What is worse, influence corrupts more than any of these probably because influence is irresponsible. Yet this is what I have done all my life. I have always run away from power and gone in for influence, and I cannot be sure I haven't done more harm than good.

This hit me when I was President of the American Economic Association. This was 1968, the year of Chicago's Mayor Daley. We were scheduled to meet in Chicago. There was great agitation that we should move out of Chicago, and we could have gone to Philadelphia. My Executive Committee was split exactly 50-50 on this, and here the decision was in my lap without any alibis at all. I just had to make this decision all by myself. The only time in my life I ever had any Boulding power; I had the power to move a half million dollars from Chicago to Philadelphia.

Well, I thought about it very carefully, and the decision I finally made in these circumstances was different from the way I would have voted on the committee. On a committee you are irresponsible. You don't really have to follow through with the consequences of your act. So that shook me up. It made me worry about influence and all that.

On the other hand, there is no question that power is corrupting. There is what I call the dismal theorem of political science. Economics, as you know, has been a dismal science for a long time, and it seems to me political science ought to have a dismal theorem too.

The dismal theorem in political science is that all the skills which lead to the rise to power tend to unfit people to exercise it. It isn't 100% true and there are happy exceptions to it, particularly if there are strong random elements in the selection of powerful people as there are in this country. But if you rise by promotion, this is the Peter principle, the skills which lead to promotion unfit you to operate at the top. This is a great dilemma in political structure, and I don't know what the answer is. The only answer I can think of is the introduction of random elements in the selection of the occupants of powerful roles.

At the time of the last draft I was arguing that if a lottery was good for the draft, why wasn't it good for the Presidency? As a matter of fact, that is what the Greeks had. And then it occurred to me that this is what we had anyway and we don't have to worry about it. A person becomes President of the United States just because a penny turns up heads 20 times in the course of his life. We do have these very strong random elements and sometimes we have good luck and sometimes we have bad luck. This shows what we may be in for now.



# ***Productivity***

