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ECO-NOMICS: TOWARD A THEORY OF VALUE FOR PUBLIC ADMINISTRATION

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ABSTRACT

This article examines the dominant economic theory that underlies current public administration practice and argues for the development a new economic paradigm, based on ecosystem concepts. In contrast to economic models based on the rational paradigm that places value only on market-tradable goods, eco-nomics would recognize the contribution of all entities and activities as capital and establish the collective welfare as the primary measure of value.

"For every complex problem, there is a simple solution...and it is wrong!" (anon)

The organizing question for this symposium was, “What would public administration look like if it was based on environmental theory?” Any serious contemplation of the question quickly leads to recognition of the need for a new economic theory. Current economic theory, based in old notions of utilitarianism, assumes away the complexities of society and leads us to simple solutions that create other problems often worse than the ones we thought we were fixing. Public administration, nested in modernism, adopted this economic theory as its ideal method of decision making and policy analysis. Today, utilitarian economic theory with its emphasis on efficiency and self-interest provides the primary values for governmental decisions.

The focus of this paper is on economic theory as a comprehensive system for human decision-making. It is not limited to a theory of exchange but rather to a theory of value. How we value factors in a decision or policy process can lead to the loss of other factors that may have greater value in another context. The sacrifice of these factors takes place in an unnatural context that excludes the natural connectivity in which it is made. An economic theory based in ecosystem concepts offers the possibility of a decision model that would
recognize complexity and the necessity to include all parameters in the decision process. Such a theory could lead to an economics of inclusion and social policy for the betterment of the whole not just the few.

Social problems, the stuff of public administration, are increasingly complex and wicked (Harmon & Mayer, 1986). They lack clear boundaries, cannot be simply defined, and are interconnected. Addressing them through conventional decision models requires breaking them down into small parts, focusing on a single piece, and designing policies to fix one problem. In doing so, decision makers ignore contributing factors or assume that a stepwise process of decision making, addressing one piece at a time, can ultimately solve the whole problem. What is more likely to happen is a morphing of the problem into a more complex form with little return on the initial investment.

A case in point: the problem of low test scores among inner-city children. Richard Rothstein reports (2000, p. A20) that a school in Los Angeles had the lowest test scores in the nation. Only 10 percent of its fourth graders tested at the national median in reading and only 5 percent in math. This is a serious problem that begs for immediate attention. At first glance, the problem seems to be that the school is deficient in teaching these children. For some policy makers, the solution to this problem is to put more resources into programs to improve achievement. For others, the solution is to change the school itself, by offering parents a choice of schools through a voucher program or a new charter school.

But what if the problem is more complex? Rothstein points out another factor that may obliterate these efforts: most of the children in this cohort move frequently because their parents cannot find affordable housing. Unless all schools in Los Angeles follow exactly the same curriculum at exactly the same pace, these children will always be off schedule. They never have a stable educational experience and thus can never catch up. Affordable housing is not a part of education policy, so it never enters into the decision model as a factor in improving test scores. If policy makers were to consider the complexity of the problem, they could design programs to target resources for these children, such as district-wide tutoring programs. A decision model that examined all facets of the problem and that valued the inner-city child as “natural capital” (Hawken, Lovins, & Lovins, 1999) might develop more effective solutions at lower monetary cost overall.

This article begins with an overview of rational economic theory, the standard in the world today and increasingly the base for most public administration decision making. I then discuss the weaknesses of rational theory and identify notable failures and irrational outcomes. The concept of ecosystem interdependence is explicated and other bases for economic theory are described. This discussion is not intended to examine the considerable
literature of environmental economics or for the design of mechanisms to value non-market goods in current economic theory. Rather it uses environmental theory as a base from which to argue the need for a paradigm shift in public administration theory itself. The aim is to propose a model of "eco-"nomics as a basis for decision-making in public administration that would be more appropriate for the development of social welfare for all.

RATIONAL ECONOMIC THEORY

Rational economic theory is founded on the assumption that self-interest/greed is the driving motivation for all living entities—human, animal, and plant. The greatest welfare for a society is achieved through the summing up of individual decisions designed to maximize individual welfare. Maximum social welfare is assumed to be achieved by each individual selfishly deciding what’s best for itself.

Overlooked in the rational model are any outcomes that affect other individuals or natural systems outside the individual’s decision parameters. Thus it is rational for companies to dump pollution into air and water that drift away from the area because it is cheaper for the company as decision-maker—free for the company, although the costs are borne by others downstream. It is also rational for companies to downsize their staffs in order to maximize short-term profits despite the costs to the local community of unemployment and other related social ills that may well impose long-term costs on the company. And it is rational for individual property owners who don’t have school-age children to vote against taxes to support schools even though the costs of an undereducated workforce will again be borne by the whole society.

Much of our public policy is based on the fundamental soundness of the rational model, yet we fail to see the dysfunctions that it creates. Policies based on an assumption of human behavior will be untenable if that assumption is incorrect. If humans do not make decisions based only on their own welfare, then the whole enterprise of public administration (to the degree that it depends on rational economic theory) is undermined. And there is growing evidence even from the economists that the rational economic theory assumption is incorrect.

Paul Krugman asserts that economic policy in America is often based on hypotheses and assumptions that cannot be verified empirically (Krugman, 1994). He challenges the validity of some basic assumptions of U.S. macroeconomic policy. For example, one tenet of fiscal policy holds that a tax increase will slow down economic growth and inflation because individuals will reduce personal spending because the tax will reduce their discretionary
income. Quoting George Akerlof, Krugman offers the scenario of a family around the dinner table discussing the need to reduce monthly spending by $12.36 in anticipation of a proposed tax hike (Krugman, 1994, p. 208). It is unlikely that real families ever have a conversation like this because the effort isn’t worth the result. Akerlof described such behavior as near-rational and argued that near-rational behavior and perfectly rational behavior have very different implications for policy.

Stephen Rhoads argues that economists overemphasize money as the primary means for people to achieve happiness (Rhoads, 1985). Economists focus on market goods as the measure of preferences and cannot measure non-market demands such as more time with one’s families, better communities, access to arts or the outdoors. Rhoads also observes that the people most likely to act in a purely rational fashion are economics students, an observation also offered by Etzioni (1988). Richard Thaler (1991) describes consumer behavior as quasi-rational. An economist who consorts with psychologists, Thaler has conducted empirical studies and has concluded that in many cases consumers routinely ignore rational criteria and make decisions based more on psychological factors.

The crucial link in the rational economist’s argument, however, is the assertion that selfish behavior is natural—that all of nature is inherently selfish. It turns out that this, too, is not quite accurate. In an ecosystem, where each inhabitant is dependent on maintaining a balance with all others, selfish organisms may eventually destroy their habitat and bring about their own extinction. Only by maintaining a critical balance in an ecosystem can all organisms co-exist successfully. Yet, human rational self-maximizing behavior can lead to habitat destruction that endangers their own lives.

This was nicely demonstrated in the classic Garrett Hardin article, “The Tragedy of the Commons” (Hardin, 1968). Commons property left to the selfish use of all inhabitants will quickly be depleted so that there is none left for anyone. Hardin presented an allegory of a community green where farmers freely grazed their sheep. Each farmer increased the size of his flock in order to maximize his own profits. Gradually the green was depleted and all of the farmers lost. Although all would benefit in the long run if each used a smaller share of the resource, none had the incentive to sacrifice his short-term gains unless all others did so too. Thus, rational/selfish behavior may lead to totally undesirable outcomes. Careful management of the commons—i.e. regulating selfish behavior—is needed to maintain its viability for the entire society.

Thayer (1981) asserts that rational competition is inherently alienating. Setting individuals against one another cannot result in the development of collective welfare. To Thayer, the unregulated free market is the economic equivalent of political anarchy. Kenneth Lux (1990) has argued that the moral
philosopher Adam Smith made a mistake when he assumed that self-interested behavior could lead to anything more than self-interested decisions. What is right for a whole society is more than just the sum of individual self-interested decisions.

I have argued elsewhere (Bailey, 1992) that the sum of individual rational decisions can also lead to irrational outcomes—ones that no one would rationally choose. Global climate change is such an example. Under current economic theory, it is rational for the Brazilians to clearcut the Amazon rainforest for short-term economic gain and for the Indonesians to sell off their teak forests to the highest bidders. Property owners and governments in these areas gain wealth in the short-term by exploiting those resources. The resulting ecological consequences—killer mudslides, loss of soil nutrients, and severe weather events—are not rationally desirable outcomes and surely cannot be said to be maximizing social welfare of the surrounding communities. Ultimately, the depletion of the rainforests contributes to global warming that will affect the entire population of the planet. However, global climate change is a long-term effect the costs of which are diffused across the planet. Since the individual decision maker cannot estimate his personal costs from global warming, and since long-term effects are discounted by rational decision makers in any case, destruction of the planet’s climate is not included in the short-term calculation of rational self-interest.

We can also see irrationalities in the free market itself. Agriculture is a good example in which self-interest dictates that farmers plant crops that will bring the highest value. If all farmers plant the same crop, however, there will be overproduction that will then depresses prices so that all farmers have lower profits. The same thing happens in years when there are bumper crops—a good year for productivity is a bad year for profit.

A market where consumers do not act rationally is health care. Conventional economic wisdom dictates that consumers will shop for the best price in goods of equal value. But no one, upon learning that he has a catastrophic illness, will embark on a search for the cheapest doctor in town. The price mechanism in health care acts instead to ration health care to those who have employer-provided benefits and/or are the most affluent. The common interest in good health care and disease prevention cannot be achieved in the market of self-interest.

All of the above discussion illustrates that classical economics theory, with its simplistic emphasis on the supposed rational individual, leaves out too many variables in complex human behavior. Policy based on this theory likewise ignores variables external to the policy problem and the interconnections among policy issues. If theory cannot truly predict human
behavior and lead to optimal outcomes, then perhaps it is time for a new theory.

AN ECO-BASE FOR ECONOMICS

Even if we agree that rational economic theory has shortcomings, are we left with the Churchillian argument about democracy that it is a lousy system except for all others? Are there, in fact, other bases for economics and decision theory? In the following discussion, I identify a few voices from the field of economics in support of a model based on ecosystem thinking.

One of the most prominent of these voices was the late Kenneth Boulding. Boulding was a major figure in economics during the last half of the 20th Century. His earliest writing called for a reconstruction of economics based on general systems theory (Boulding, 1950). He later was influenced by environmental concepts and wrote on *Ecodynamics* (1978) and *Evolutionary Economics* (1981). Boulding's basic thesis was that economics should exist for the improvement of human life, a long-forgotten echo of Adam Smith. He believed that economics should evolve and adapt the way that ecosystems do to provide for the whole society. He argued that a forest is a free market system beyond Milton Friedman's wildest dreams, where each inhabitant is able to obtain needed sustenance while maintaining the delicate balance that enables all to survive.

Kenneth Boulding was an old-fashioned scholar, a learned man in many ways, a mensch. A classically trained economist and one-time president of the American Economics Association, he integrated his work with a spirit of care about people and the role that economics could play in making the world a better place for all.

Another economist who can give us insights was E. F. Schumacher, whose *Small Is Beautiful* (1973) was published during the heyday of the U. S. environmental movement. Schumacher examined economics from the Buddhist perspective and argued that it is possible to design an economic system that can enrich human existence and be compatible with the environment. His basic thesis was that large-scale enterprises are incapable of doing this because ownership is divorced from the purposes of the organization. Quoting R. H. Tawney, he wrote about large organizations:

Such property may be called passive property, or property for acquisition, for exploitation, or for power, to distinguish it from the property which is actively used by its owner for the conduct of his profession or the upkeep of his household. To the lawyer the first is, of course, as fully property as the second. It is questionable, however, whether economists should call it “property” at all...since it is not identical with the rights which secure the
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owner the produce of his toil, but is the opposite of them. (Schumacher, 1973, p. 266)

Schumacher argued that only “in small-scale enterprise, private ownership is natural, fruitful, and just” (p.266). He then developed a vision of economics integrated with Buddhist principles of the fulfilling life.

The common theme of these scholars is the valuing of human beings as an essential source of capital. In a recent book for the popular market, Paul Hawken, Amory Lovins, and L. Hunter Lovins (1999) demonstrated the real strength of valuing “natural capital” over conventional capital, such as money and materials. Their thesis was that the economy must value all forms of capital, including human and natural; that economics should be organized around the biological realities of nature; that natural and human capital should be accounted not as a free inexhaustible amenity but as a finite and integrally valuable factor of production. The book presents a number of examples of companies that seem to be acting in this fashion. Although it has a too-optimistic tone, given the dominance of neo-classical economic theory in the global market, the book’s argument is illuminating.

Hazel Henderson (1991) and Marilyn Waring (1988), among others, have argued for the inclusion of non-market work in the calculation of a nation-state’s wealth. Waring, a former member of the New Zealand Parliament, argued that so-called women’s work is essential, particularly in developing countries, to maintaining the culture and society upon which development can proceed. Volunteer activities are likewise unrecognized although they provide considerable value in communities. Excluding this work from wealth calculations because it is not linked formally to the market undervalues the true wealth of a nation. Childcare, for example, is a crucial factor for the future labor market and, thus, should be valued as an investment. Development decisions that undermine “women’s work” by destroying the natural environment also reduce the true capital wealth of a region.

Each of these approaches can contribute to the development of eco-centric economics. Schumacher and Henderson present the case for community-based economics and small-scale enterprises that can meet the needs of all members of a community or region, however defined, while Waring shows the value to the culture and society of non-market work. Taken together, these ideas mimic the ecosystem or habitat concept in which each member lives in symbiosis with all other members. In an eco-nomic system, the habitat would provide basic sustenance for all residents, including food, shelter, health care, and education, and would depend on the contributions of all members, whether paid or unpaid, for its own survival and growth.
Boulding’s model of evolutionary economics enables the development of an overarching system of economics that might be likened to the planet. Boulding envisioned economics and the earth as general systems and argued that economic decision-making had to incorporate the changing dynamics of the entire system of human and natural interfaces. He defined evolution as “ongoing ecological interaction, of populations of species of all kinds which affect each other, under conditions of constantly changing parameters” (Boulding, 1981, p. 23).

Evolutionary economics looks at the great complexity of economic and social life in terms of the fundamental concepts of ecological interaction and mutation. It looks at commodities as if they were species in the social and economic ecosystem...One of the consequences of the evolutionary outlook is that we see economics and economic life as a subsystem of a much larger system of social and biological evolution and interaction. (Boulding, 1981, p. 169)

As a base for policy making, the evolutionary approach makes two contributions:

1. the light it throws on the dynamics of social systems and on the alternative futures of particular decisions and policies; and

2. the light it throws on the relative importance of plans versus environments in changing the course of the future (Boulding, 1981, p. 181).

Unlike conventional economics, which discounts future values to the benefit of individual decision maker’s welfare, evolutionary economics seeks decisions that make the present value of the future greatest. “If decisions are not to be frustrated and regretted, therefore, it is of great importance to have a realistic appraisal of the impact of any particular decision or policy on the future itself” (Boulding, 1981, p. 181).

A PARADIGM SHIFT

Futurists and environmentalists concerned about creating sustainable futures argue for acceptance of a new paradigm based on ecological principles. Lester Milbrath (1996) articulates the differences between what he calls the dominant social paradigm (DSP) and the new environmental paradigm (NEP). He defines a social paradigm as beliefs about how the world works physically, socially, economically, and politically. A dominant social
paradigm may be defined as a society’s belief structure, which organizes the way most people perceive and interpret the functioning of the world around them (Milbrath, 1996, p. 276).

The DSP, according to Milbrath, is centered on the rational economic model. The priority is on economic growth and development. It emphasizes immediate materially oriented gratification; hierarchy and authority; competition, domination, and patriarchy; and freedom so long as it serves economic priorities (Milbrath, 1996, p. 279). The DSP relies on markets and willingly sacrifices other species (or people) for economic gain.

The NEP, in contrast, places the priority on ecosystem viability and focuses on long-term sustainability. It emphasizes simplicity and personal enrichment, cooperation, partnership and egalitarianism, and freedom so long as it serves ecological and social imperatives (Milbrath, 1996, p. 279). The NEP utilizes both planning and markets and protects other species, even at economic cost. The NEP places the well being of society in the context of the ecosystem, recognizing the place of humans as members of this complex community.

Policies based in the NEP will likely be very different from policies developed in the DSP. Economic development that results in sprawl, environmental degradation, or displacement of poor people has been common in the DSP. In the NEP, such policies would be viewed as destructive to the social ecosystem as well as the environment and would not be implemented.

One of the major barriers in attempting to shift to a new paradigm, the NEP or something like it, will be the power of the rational model in decision making. The present calculus is seductively simple—the best decisions are those that maximize individual welfare, usually measured in the form of profits. In 1992, I proposed a new approach to decision making for an interconnected world (Bailey, 1992). I argued then for a model of suprarationality in which the rational model would be inverted. Rather than defining rationality as individual self-interest in isolation from the welfare of the whole, I asserted that suprarationality would require an examination of the welfare of the whole as a first step. Decisions would be rational only in relation to the interests of the collective itself.

Suprarationality may provide the decision model for Milbrath’s New Environmental Paradigm. By offering a rule by which to measure decisions, it makes the link between the DSP and the NEP. More research is needed to document the ways that humans actually use suprarationality in their personal lives, but recognizing its existence is the first step in making the shift to a new paradigm.
POLICY WITH AN ECO-NOMIC FOUNDATION

How would these ideas translate into administrative practice and policy making? The connection is not difficult, in my view, but does require that public administration reconsider the value of neo-classical economics and rational decision making in many administrative situations.

Environmental theory rests on a fundamental assumption about relationships. In an ecosystem, all parts are interconnected so that damage or loss to one part of the system affects the survival of all other parts. They live in a symbiosis with each other. A decision model that devalued and ultimately destroyed part of the system could lead to the destruction of the entire system. This would not be a rational decision from the system perspective.

Applying this logic to human affairs, the rational decision model is seen as dangerous and unworkable. Decisions that are made only for individual self-interest or to achieve short-term efficiencies threaten the existence of all others, including future generations. The suprarationalist model is compatible with environmental theory because it perceives self-interest in the context of the welfare of the collectivity. Preservation of the web of human existence would be the primary measure of a good decision. Marketplace values would be subsumed to the values of human and natural capital.

The theory has not been developed well enough at this point to demonstrate its effectiveness in a range of public administration activities, but consider some possibilities. Welfare reform in the U.S. is based on the assumption that people must be forced to work. Once they have gained employment, then their self-interest presumably will guide them to support themselves and their families without the assistance of the state. Some states have recognized that there are complexities that prevent some welfare recipients from being self-sufficient, but few have looked seriously at the on-going problems that people at the lower rungs of the economic ladder face. This is increasingly so in California where the poor and lower middle-class are priced out of housing that is close to low-income low-skilled jobs. As in the case of low test scores cited earlier, welfare policy that ignores interconnected problems cannot succeed (although the cynic might argue that the real focus of welfare policy reform was to reduce spending on the poor).

A welfare policy based on ecosystem thinking and valuing human capital might involve working with neighborhoods and larger communities to improve all aspects of the lives of the poor—schools, housing, childcare, literacy and adult education, and so on. It might focus on developing the talents of the poor for local enterprises that would foster community development. It might involve a wider community discussion on the causes of poverty and the entire community’s interest in ameliorating them.
Economic development policy is another example where ecosystem thinking could be beneficial. Most cities and regions attack economic development piece by piece. The goal is usually to attract development that will increase wealth and affluence to a community. In many cases, such development results in the displacement of poor and less affluent residents. They are devalued in the decision calculus and their problems are merely shifted to some other neighborhood. The community may achieve increased wealth but only at the expense of the poorest of its residents.

An economic development policy based in eco-nomics would change the focus from increasing money to improving human habitat. Rather than displacing low-income residents, such a policy would see improving their lives as the central principle of the policy. As the lives of these residents are improved, the wealth of the entire community will increase. Rather than assuming that increasing wealth eventually trickles down to the less fortunate, the suprarational policy assumes that increasing the wealth of the poorest will ultimately trickle up to the betterment of the whole community.

The piecemeal policy implementation by administrative experts that we are accustomed to devalues human capital and ignores the information resource available in the communities themselves. They thus create as many problems as they solve and often waste dollar resources while they endanger natural capital. Eco-nomic policy would be developed in collaboration with the people affected and their communities and would utilize all capital resources, especially human. Policy development would be on-going and flexible, adapting to changing conditions in the same way that an ecosystem does.

Public organizations would also change. Today government and agency operations are focused on efficiency (getting things done quickly and cheaply without regard to side effects). The most efficient way—that is, the cheapest in dollars—to address an administrative problem is to break it down into subsidiary parts (division of labor) and deal with each one separately. Not only can this result in unforeseen consequences because the interconnections among the parts are ignored, but it can increase costs in the long run because of unforeseen consequences that lead to new problems. I have demonstrated elsewhere that NIMBY (not in my backyard) protests are often the result of “efficient” regulatory processes that exclude citizens from all the important decisions (Timney, 1998b).

In an ecosystem-based theory of public administration, the value of the outcome would take precedence over the efficiency of the process. Public administrators would seek out information from a variety of sources—lived as well as expert—and would design public programs through inclusive collaboration processes. Problems anywhere in a community, region, or nation-state would be regarded as problems of all and solutions would be
sought that do not advantage one group over another. For example, environmental justice is a problem of minority communities that can be attributed to both unequal political power between rich and poor and, equally important, to the rational decision model. Siting dirty or hazardous facilities in poor neighborhoods is the cheapest way to deal with them because it results in the least reduction of property values. However, seeing dirty and hazardous facilities as a community problem that all must share can result in designing policies to reduce or eliminate the hazard in the first place. Where neighborhoods and people are considered to be expendable or less valuable, decisions that create new values and uplift the entire community are unlikely to be taken (see Timney, 1998a).

Many aspects of public programs would change in an eco-nomics system. Clients of public programs would be valued as natural capital and programs (education, penal, substance abuse) would be designed to bring out their full potential. Public employees, too, would be valued for the contribution that they can make to the whole, rather than the single role that they are often required to endure. Hierarchies make no sense in an interdependent ecosystem and hierarchical organizations that suppress information flow make no sense in an eco-public administration.

It will take considerable effort to develop a theory of eco-nomics for public administration. This paper is a beginning attempt to outline the parameters of a public administration and decision theory based on environmental theory. A theory of value for public administration would improve the effectiveness of public organizations and enable the development of true community throughout the society. It would also, I believe, result in improved long-term efficiency by avoiding the costly mistakes that result from short-run "rational" decisions.

ENDNOTE

1. This description is drawn largely from Steven Rhoads' *The Economist's View of the World* (1985). While the economics literature is considerably more complex, this is the mainstream narrative on which public administration rests today.

REFERENCES

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Mary M. Timney is Professor of Public Administration at California State University, Hayward. Her research focuses on challenging the dominant social paradigm in public administration, economics, and public policy, particularly in environmental policy. Her primary focus currently is on citizen participation. She is working with Terrence M. Kelly on a book that will develop a new political theory for public administration. She has published numerous articles in Administrative Theory & Praxis.