In this Issue: Authors and Articles

Daly's "Cost–benefit analysis"

Professor Herman E. Daly, an economist, takes a sensitive look at the philosophical underpinnings of widely used methodology of cost–benefit analysis. The question of values, or 'sound values', and their evolution, becomes an issue of considerable weight. A recent address by K.R. Hammond (HSM 1 (1980) 169–171) has dealt with the same problem: we often know *how* to optimize, but rarely do we know *what* and *why*. Efficiency concerns are not equally seconded by concerns about effectiveness and explicability.

One of the problems relates to the prevailing tendency to reduce complex conflicts to singleness of (representative) purpose. Single-criterion approaches suggest the biggest bombs, the largest automobiles, the lowest expenditures, or the fastest response. The question of values, their conflcts and relative weights, becomes circumvented and only implicitly apparent by insisting on a singleness of purpose. Cost-benefit analysis is such a single-criterion approach, reducing complex issues into a single aggregate, cost–benefit ratio.

It is only when we consider *multiple* criteria, their conflicting valuations and value tradeoffs, that the questions of what (effectiveness) and why (explicability) complement our simple-minded hows (efficiency). As Daly says, to be efficient with respect to a single goal, without any concept of ranking the multitude of 'other' criteria and goals, "is an enterprise suitable only for morons and fanatics." We know how to blow up the Moon quite efficiently; but should we do it? And why?

Should social scientists merely ape the methods of the physical sciences and embrace their implied singleness of purpose? Can such an approach still be called science? Are the techniques of operations research, econometrics, and systems analysis scientific simply because they deal with measurable quantities, relate them through mathematical equations, and know how to optimize a single goal? Once a single criterion is agreed upon, by whatever mechanism, the only question left is that of means: a purely technical question quite capable of being settled by experts. Thus the role of experts is well defined and socially desirable – provided that a single criterion can be agreed upon. But can it be agreed upon? Or, must it be agreed upon? It is these questions which must be addressed by social *science.*

Daly attacks the concept of randomness in its accorded function as a moral scapegoat. Commonly used risk indicators, such as the average risk per person or the expected number of fatalities, do not promote *risk equity*. Certain members of the public, specific individuals, are experiencing higher-than-average risk increases and could become deeply concerned about the equity of risks distribution. But more equitable risk distribution could conflict with higher overall average risk! What are the value tradeoffs between risk equity and overall level of risk affecting specific individuals within society? Do I prefer increased compensation (even if adequate) for increased *specific* risk, or am I ready to forego such compensation if overall average risk is lowered? The key issue is one of ethics, not economics, much less that of randomness.

Professor Daly concludes his paper with some thoughts on the issues of economic growth and production maximization versus the steady-state stability on the material plane. His preference for maintaining 'sufficient' wealth and distributing it equitably is obvious. But what about the other participants in the economic process? Sylvain Ehrenfeld (this issue) raises important questions which are not addressed by Daly. Perhaps the conflict is not properly identified. It is not a simple growth versus non-growth dichotomy, but what kind of growth, how much of it and when, which are the questions to be grappled with.

Triffin's "Affinity groups representation"

It looks that in 1980 only 53 percent of the U.S. voting population turned out to vote. That is, 43 million for Reagan, 35 million for Carter, and 75 million for neither. Is the electorate becoming apathetic? Are the traditional forms of democratic representation obsolete? Does it matter to people who is actually elected? Is a new form of democratic participation needed?

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Professor Triffin from Yale University suggests Affinity Group Representation as a possible alternative. The idea is simple: 200 voters get together and elect their representative. These elected delegates would similarly form groups of 200 and select *their* representatives. Perhaps one more step would be required if the country's population were too large. In essence, each elected official represents and is responsible to a group of 200 people. To this "affinity" group he or she reports periodically and can be recalled by the group if needed. Each citizen can participate and express himself continuously within his affinity group of 200.

Actually, Triffin's scheme is similar to the one found in More's *Utopia*: Thirty 'extended' families of fourty members each elect a 'district controller' every year, who in turn elect 120 'senior district controllers'. The population of Utopia is about 13 million. There are 6000 families in each of the 54 cities.

Triffin requires *unanimous* expression of preference within affinity groups. Such 'East-European democracy' might not in fact be necessary. More important is the issue of the secrecy of the vote. It is certainly easier to bribe or pressure a group of 200 than the electorate as a whole. It might be difficult to assure anonymity and secrecy within the groups, or cells, if they are to achieve unanimity of the vote.

Professor Triffin is aware of these difficulties and suggests that affinity group approach be considered only for small local communities. He cites an example of forming an Undergraduate Senate at Yale University in 1970. Current status of the experiment is not reported.

Because of the continuing decline of voters' participation in the democratic process, HSM editors decided to publish Triffin's article in the hope of stimulating a discussion on the subject. Some first reactions have been received and are summarized after Triffin's article. The reader is sure to find stimulating challenges and critiques of Triffin's proposal in that section.

Would the affinity group approach increase voters' participation? Does one feel to have more power in having a large influence on electing one of hundreds of thousand delegates, or in having a small influence on electing the President? Such questions cannot be answered at this stage.

Triffin is obviously dissatisfied with direct or primary democracy and with its reliance on majority or plurality criteria. He is concerned about the minorities which are left unrepresented under such system. He calls for a sort of *proportional representation* which would also enable the voter to bypass the party machine and vote for a single candidate of his own choice.

Triffin's proposals might work if adopted independently at local community levels of government and representation. If successful, they would further strengthen local autonomy and self-management and further bypass central-party political machinery. In this sense more and more people might participate at local levels and care less and less about what is going on at the top of the political hierarchy – even smaller participation in the 'central' democratic process might result. This is not necessarily bad if balanced by the increased participation at grass-root levels.

Fiksel's "Stress and stability"

Traditional approaches to risk originate from analogies to financial cost–benefit analysis. Although such approaches might be valid in describing public or societal risk, they are quite inappropriate for individual risk assessment. Dr. Joseph Fiksel, a consultant with Arthur D. Little, Inc., has avoided cost–benefit analytical vulgarization *and* simplistic 'equitable' balancing of individual risks by starting anew: from systems-biological viewpoint, based on the concepts of *stress* and *stability*.

It is the hope of HSM editorial board that Fiksel's article will provide a trigger for a continuing exchange between practitioners and researchers in tackling the extremely complicated and elusive issues of risk assessment and risk management. Some perceptible advances in our understanding of risk are virtually mandatory in the anticipated turbulence of the eighties. At this stage we have even difficulties to answer, What is risk?

"*Risk* is the potential for loss to occur", says Fiksel. Of course we still have to know what is the potential and how to measure it, what is loss (does it include opportunity loss?), and how "one person's gain – another person's loss" is to be handled? If, according to Fiksel, risk can also be seen as a potential for unexpected disruptions of stress situation, what about calculated or anticipated risk? Risk, similarly to life, is a concept eluding concise definition.

Fiksel's approach can be characterized as 'pre-quantitative'. He is concerned with risk identification and classification rather that its measurement and

quantification. Describing risky *situation* qualitatively is an essential stage before quantitative descriptions should be contemplated.

New concepts and terms appear in Fiksel's approach towards risk: *stress, stability, alleviation, fortification, disruption*, and so on. There is a free-flowing usage of analogy and metaphor. The approach is novel and appealing. Yet this paper is the beginning of the beginning at best. Human decision making, values, and conflicting preferences are still missing, practicality of the approach remains to be proven. The self-limiting reliance on a 'state of equilibrium' in modeling systems which operate *far from equilibrium*, as most human systems do, is unnecessary. But the first step has been taken.

Dr. Fiksel provides a brief description of and a reference to an Environmental Protection Agency project where his approach was applied. In establishing the ranking (or prioritization) of hazardous pollutants, stress is measured by the degree of exposure to a pollutant in the aquatic environment, while stability is measured by the toxicity of that pollutant to aquatic organisms. One can analogously relate stress to the magnitude of potential losses and stability to the probability of occurrence of these losses. Only the latter is equated with risk in most traditional approaches. Yet the acceptability of a given likelihood of loss has been found to increase with decreasing magnitude of loss. There is a trade-off between the two categories, neither of them can be omitted: more likely, even more dimensions of 'risk' will have to be considered.

Biological analogies are slowly making their way into theoretical and functional areas of economics and decision making, replacing the mechanistic methodological paradigm of physics. Dr. Fiksel's modeling effort is a part of this broader trend. HSM welcomes its exploration to its pages.

Badelt's "Community groups"

It is interesting to note that this study of voluntarism in nonprofit organizations and community groups, a typically American phenomenon, comes from an Austrian economist. Christoph Badelt of the Vienna Institut für Sozialökonomie presents a careful overview of the 'third sector' and emphasizes its increasing importance and power in most industrial economies of the West.

The 'third sector', itself an embodiment of Toffler's 'third wave' of socio-economic evolution, includes informal and barter markets, 'underground economy', self-service of households and individuals, self-help of communities and groups, voluntary and nonprofit organizations, and some other manifestations of the same underlying phenomenon: a transition from centralized provision of goods and services toward more efficient decentralized self-service and demassified production.

Badelt concentrates only on community groups but the implications of his insights are relevant and transferable to the whole "third sector". He distinguishes Self-help groups, Mutual help groups, and Altruistic groups. Their common characteristic is their diminished or disappearing reliance on regular or formal markets. Yet the "informal" markets engendered by third-sector activities are often more 'market-like' than so called official markets.

People are assuming increasingly skeptical attitudes toward forced division of labor, centralized control, and bureaucratization. Instead of automatically devoting more time to paid work, they are opting for reduced working hours, increased 'leisure' time, and more time to self-service, self-help, do-it-yourself, and voluntary work. Badelt even delegates 'paid work' to a secondary position: "The group member cannot invest all his time in voluntary work; it is assumed that he wants some leisure time as well and that there is also a certain amount of time he spends on paid work." This is not to imply that participants in the informal economy never exchange for money or get paid, but the transactions are direct or with minimum of intermediaries and payments are in vouchers or in cash in order to bypass excessive taxation and inefficient 'go-betweens'.

One significant conclusion of Badelt is that established economic theories are unsuitable for and cannot be expected to develop a well founded socio-economic theory of the 'third sector'. Their methodological and paradigmal inadequacy leads to treating third-sector activities of households and groups as 'residual', 'external', or even as insignificant or non-existent. Badelt quotes a 1974 estimate of 'voluntary GNP' at $ 70 billion, and a 1980 estimate at 9 million fulltime-worker equivalents in the U.S.A. These figures are likely to be much higher; there are some estimates claiming than more than 50 percent of Italy GNP is unrecognized and comes from informal activities of the 'third sector'. These trends are likely to accelerate in the future.

Badelt is therefore correct in calling for a more

vigorous research and study of a potentially dominating mode of economic activity. We understand too little of these trends, are unable to measure their impacts, and remain unaware of their influence on management and decision making of individuals and institutions. HSM intends to lead the way in efforts to remedy this state of affairs.

Friedman's "Quaternary sector"

Yona Friedman's main concept is his 'modernized quaternary sector' of socially useful work and activities which do not find their way into the traditional GNP. Yet this sector is growing at accelerating rates in the most developed industrial countries and a new socio-economic pattern is bound to emerge. Whether we call it self-service society, self-help and household economy, third-wave society, or quaternary sector is irrelevant; it is the early perception of these trends and early recognition of their potential and impacts which matters.

Friedman urges governments to relax certain land laws and building codes to help people supply their own housing. Anything that helps the individuals to serve themselves more effectively may be just as important as production measured in conventional GNP terms. To increase the productivity of self-service, governments need to focus scientific and technological research on self-service infrastructure, or on 'prosumption' in Toffler's terminology.

As it is now, and understandably so, many governments feel threatened by 'informal economies' and self-help activities of people. One is reminded of the recent case in Vermont where a group of women knitters, working in their homes, were disallowed to continue their self-supporting activities. In the name of minimum wage law, the government insists that these women should be protected, aginst their will, and have to work in factories for minimum guaranteed wages. These knitters have now been 'protected' into zero wages. What good is the minimum wage if good part of their income would have to be spent on transportation, taxes, kindergartens and domestic help? They perceived their work at home, even at subminimal wages, to be economically and socially more attractive, even crucial to their quality of life. Yet governments still insist on old-fashioned New Deal 'protections'.

This is just one example of trends which can be hampered but never stopped by govermnets. Ultimately the laws will have to be changed, even through consumers' revolts if necessary. Friedman calls for governmental measures which would protect and enhance the self-help activities and liberate them from all formal authorization and permits which make them illegal in many countries today: "Non-rural agriculture, free sale on streets, and free exercise of skills could , among other occupations, absorb a very large part of unemployment and re-equilibrate the proportion between socially useful and less useful activities."

In the second part of his paper Friedman discusses some specific issues and recommendations in the areas of immigration, education, and status accorded to quaternary activities. He feels that the state should help to make quaternary sector respectable. He observes that a society is governed more by custom than by laws. The fact is that quaternary activities are gaining new respectability in many countries despite the laws; sooner or later the laws will acknowledge newly emerging customs. In most countries of Eastern Europe the informal economy is already more respectable, while working for the government or government-owned industries is losing its social prestige. Informal sector is fast becoming *the* sector of the economy, while the official sector is increasingly bypassed and relegated to secondary status.

One important aspect of self-service, household-based economy is the perceived status of women -- it has been so far ignored. Women, who are only now making inroads into business, services, and governmental institutions might feel threatened and even crossed by these new trends. They choose to ignore the do-it-yourself and self-service trends for the time being. But ultimately they will have to define their role and status in the upcoming self-service society. The writers, social analysts and economic researchers should address women's concerns as soon as possible, perhaps on the pages of HSM.

Friedman concludes with the observation that one of the fundamental characteristic of modern society is that no government, no executive has real access to the 'levers' which might govern social mechanism. A government does not hold power to create quaternary praxis – it establishes itself spontaneously even if government is against it. Spontaneous social orders are extremely powerful, self-sustaining and self renewing. New generation of politicians, capable of recognizing this insight and acquiring such wisdom, could receive enormous political power base through working with the people and for the people, not against them.

Friedman's article provides simple rudiments of such new socio-political wisdom.