

INSTITUTIONALIZING THE PROACTIONARY PRINCIPLE: THE QUESTION OF MARKETS

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Abstract

In his response to Gregory Sandstrom's article, Steve Fuller elaborates on the status of markets in proactionary thought. He distinguishes between two different political economies in academia that operate as alternative market models – a prize-based reward system (a first-order market) and a grant-based reward system (a second-order market).

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Gregory Sandstrom raises a variety of issues relating to the institutionalization of the proactionary principle. He is right to observe that the principle's defenders have not given much thought to its institutionalization. In this respect, I am an outlier. However, I do not wish to deal with all the claims and associations that Sandstrom makes. I simply wish to focus on two matters. The first pertains to Svetlana Kirdina's Institutional Matrix Theory (IMT), and the second to the status of markets in proactionary thought.

Although Sandstrom stops short of making any direct connection between IMT and the precautionary-proactionary world-view divide, one very obvious point of contact concerns the difference in the types of efficiency one might expect in the economy. Precautionaries clearly prioritize the sort of cost limitation associated with 'X-efficiency', while proactionaries prioritize the sort of profit maximization associated with 'Y-efficiency'. (The other X/Y differences in the three tables do not map so easily onto the precautionary/proactionary divide.) Stressing the difference between the two positions on this crucial point may serve to clarify what Sandstrom's own regulative ideal of 'proportionality' might mean in practice.

It's easy to want to both minimize costs and maximize profits. The question is which objective takes priority in a world which forces you to make trade-offs between the two goals: Should the economy (1) aim to minimize costs until it seriously slows down production and hence compromises prosperity or (2) aim to maximize profits until the collateral damage starts to interfere with productivity? The precautionary goes for (1) and the proactionary (2). The policy consequences of the two positions are

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radically different – not because they uphold different principles but because they prioritize the principles differently. Sandstrom may wish to refashion his ‘proportionality’ principle around this idea of prioritization, which is related to what John Rawls described as the ‘lexical ordering’ of principles. In other words, the first principle operates as the basis for which other principles are subsumed. One may think of the second principle either as an auxiliary that provides a check on the first principle’s excessive (self-destructive) pursuit or, more simply, a specification of the scope of the first principle’s reach.

As for the status of markets in proactionary thought, we should adopt the rather broad understanding of the market as a unique knowledge-producing institution, which was how it was understood in the second half of the 18th century, when it was abstracted from its more concrete meaning (i.e. the place where things are traded) and proposed as a kind of template for institutional reform by thinkers with such different turns of mind as Adam Smith and the Marquis de Condorcet.

To recall what originally had made markets so attractive, let’s say we live in a world in which we are clear about our ends but unclear how to achieve them. This is due to ignorance at multiple levels. We do not know the resources at our disposal. We do not know what the available agents are willing to offer. Moreover, these agents themselves do not know what they can offer because they do not know the resources at their disposal. So, what to do?

The answer: Create a market, which by announcing a demand for achieving these ends – and, more to the point, a reward – agents are compelled to compete with each other, resulting in publicly observable actions that effectively reduce the uncertainty on which the ambient ignorance had been based. The market effectively requires agents to reveal the sorts and levels of risk to which they are willing to be exposed, which in turn reflects both their will to succeed and their ability to mobilize relevant resources.

The basic formula is this: Markets generate new knowledge by stimulating effort which serves to convert uncertainty into risk. In this respect, it offers an ‘experimental’ approach to living by treating society as a laboratory. If there is unrealized potential out there, the market is designed to bring it into the open. So, it should come as no surprise that the idea of the market as an all-purpose social innovation should arise as a feature of the 18th century European Enlightenment, which was also the time when national academies of science thought that the most efficient way to expedite human progress was by offering prizes – not grants, as we do today – for solving outstanding problems.

The difference between a prize and a grant is important. You get a prize because you have achieved something, whereas you get a grant because others think you can achieve something. Consider the alternative political economies implied. Someone who goes after a prize already believes s/he has the resources necessary for achieving the desired result, whereas someone who goes after a grant simply needs to believe that s/he possesses the relevant resources on the basis of which

the funder might provide the grant. Thus, one is left with the impression that solving problems by means of prizes favours those of independent means, whereas the grant-based approach favours those who are better regarded in a 'peer review' sense: What you know versus who you know?

The historic shift from prizes to grants in the modern period as the mechanism for incentivizing knowledge production reflected the failure of prizes to generate an adequate range of contenders for achieving target ends. Nevertheless, for those who continue to operate in the prize mentality, the course of action in the face of such failure remains clear. One simply publicizes the entries of the failed contestants, so as to raise the game of any future iteration of prize seekers by showing what counts as 'not good enough'. At the same time, those awarding the prize might make the criteria of hitting the target a bit more explicit, so as to prevent certain tendencies in the erring entries from recurring in the future. But agents are still left to their own devices to determine how they should adapt to the new competitive environment.

In contrast, those operating in the grant mentality envisage that if the target ends were within the reach of existing self-organized resources, then they would have been achieved by now. Thus, more than mere prodding with the prospect of fame is needed to get the right people to orient themselves in the right way. One needs to find people who can be trusted to do a job that they would not be able to do – or, more to the point, would not have done – without the resources of the grant. Nowadays we take the social epistemology of this situation as normal, but it leaves much to be desired.

After all, it may be that these trusted agents have not hitherto achieved the target ends because they have been pursuing other agendas better suited to their resources. In that case, the grant is an invitation to divert them from these more natural courses of action. Or, as is usually supposed, these agents have been working on topics that prepare them to exploit the boost in resources promised by the grant. Yet why isn't this just wishful projection on the part of the grantors, which only serves to elicit special pleading – aka 'bullshitting' – on the part of potential grantees? Suspicions are raised, especially if there are no penalties for failing to achieve the target ends, assuming the grantees can provide a persuasive explanation for the shortfall.

To be sure, both prize-based and grant-based reward systems can be understood as markets. Prize-based systems operate as a first-order market, in that the buyer purchases (or not) an actual product. The only difference is that it is the buyers – not the sellers – who set up the market stalls. In other words, once prizes are announced, potential rivals organize themselves and move accordingly into the field of play. In contrast, grant-based systems operate as a second-order market, in that the buyer purchases (or not) the promise of a product. The situation here is much more like that of the stock exchange, with its sense of 'futures trading'. A purchase is regarded as something 'invested' rather than 'consumed', since the benefits will accrue – if at all – over a long term.

Of course, on the stock market, people routinely trade shares in light of new information, based on what they think will maximize their own personal advantage. However, in practice, grant-based systems rarely include such an ongoing level of transparency, whereby one might learn the progress of work towards the promised outcome. On the contrary, a research environment run on grants is susceptible to anchoring effects, whereby those who are initially awarded grants in a field increase their likelihood of being so rewarded in the future merely by posting modest gains on the original investment (e.g. a modicum of publications but nothing earth-shattering). In a grant-based system, you can be endlessly rewarded simply for demonstrating that you're trying hard, even if you never achieve what you set out to do.

To see how different in spirit this is from a prize-based system, consider that a prospective prize contestant will need to solicit backers, typically in the form of loans, if s/he does not already have the resources to do the work to put in a credible bid for the prize. The fact that loans ultimately need to be paid back serves to discipline whether/how such a contestant proceeds. In contrast, the grant-based system invites something closer to pre-market relations of patronage, in which a relatively high trust-to-benefit ratio is tolerated. But this system is potentially quite wasteful, unless one is operating in a precautionary mode, whereby the prime directive is to maintain social stability. Indeed, the main 'virtue' (such as it is) of a grant-based system may be its tendency to reproduce a sense of social order by effectively licensing freedom within well-defined domains. It was precisely this feature of mercantilism that early capitalist theorists like Smith and Condorcet demonized.

The best way to understand 'the market' is as a kind of meta-level device for manufacturing institutions. Max Weber understood this point very well when he drew a sharp distinction between 'ascribed' and 'achieved' status in considering the evolution of the concept of 'person' as regarded by the law. Whereas market-relations allow you to fundamentally redefine your place in society by your own efforts, heredity-based relations attach your personhood to the family into which you were born, which then frames all your subsequent social interactions. Of course, each sense of status can simulate the other – at least in principle.

For example, in ascription-based societies, people could be formally disowned by their families or simply fail in their own right to establish their lineage. These people would then have to achieve their status in the 'market'. It should come as no surprise that many inventions have come from people of illegitimate birth. For them it may have been seen as a matter of life and death, as it would have been hard to justify their existence otherwise. Likewise, achievement-based societies have ways of simulating hereditary lineages, say, in terms of what Robert Merton notoriously dubbed the 'Matthew Effect', whereby a series of successes over the academic life-course – in, say, school attendance, degree class, job placement – overdetermines one's likelihood of success, say, in getting a large research grant.

Although antitrust legislation and inheritance taxation have been often portrayed as attempts by the state to encroach on the market, these policies are better seen as attempts by the state to re-establish a market environment where it appeared to be regressing to the old feudal sense of an ascribed status. In academia, the grant system routinely raises this red flag, as Merton's Matthew Effect potentially undermines the fundamental epistemic value of markets, namely, a level playing field.

Put another way, markets flourish in the face of generalized ignorance, whereby the solution to some major problem may literally come from anywhere, depending on who is willing to risk the effort. A prize system better captures this ideal, even if the prize needs to be 'rolled over', as sometimes happens in lotteries, when no one picks the winning number. Indeed, this sensibility had made Oskar Lange's conception of 'market socialism' widely attractive as early as the 1930s, before he became Stalin's favourite economist: It concedes that central planners – the people who dictate the ends on which demand is based – may need to issue a 'call for proposals' to elicit rivals willing to deliver the relevant goods within the stated resource constraints, but then adjust both the details of the demand and the rewards on offer through successive calls before arriving at an optimal solution.