

DEPRECIATION OF GOALS IN PUBLIC GOVERNANCE

(A SCHOLARLY INVENTION)

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Abstract

Discounting can be perceived as an economic allegory if transferred to the social sphere. According to it, a value is depreciated the further in future it is located. Does this mean that strategic goals, being far ahead in time, are devalued because of their remoteness? In seeking to reject such a paradox, a distinction is made below between discounting of goals in operational and tactical management on the one hand and discounting in the strategic field on the other. It seems that in operational and tactical management the goals depreciate with moving further in time, while in strategic governance it is the other way around – there is an increase of their value as a consequence of their remoteness in the future.

*“Let’s forget about “domani” for domani never comes”
“I love you more and more each day as time goes by”
Contradicting phrases from two popular songs*

The modern Strategy-As-Practice (SAP) approach to strategic governance in the public sphere provides a certain opportunity to study the influence of the time factor on public management. Discounting can be perceived as an economic allegory when transferred to the social sphere. According to it, a given value is the more desired the closer it is located in the time and, accordingly, the more depreciated the further it is located in future. Does this mean that the idea of discounting applied to public governance leads to the strange conclusion that strategic goals, i.e. goals that are far ahead of time, are devalued because of their remoteness? In seeking to reject such a paradox, a distinction is made below between discounting in operational and tactical management on the one hand and discounting in the strategic field on the other. It seems that in operational and tactical management the goals depreciate with moving further in time, while in strategic governance it is the other way around - they increase their value as a consequence of their remoteness in the future.

The attempt to prove this hypothesis goes through the following judgments:

1. Governance is all about the future. The past cannot be managed. Even when it comes to managing the present, in fact, the future is again in mind – bringing the present closer to a desired state that has not yet been reached. All goals are future states. Goals are models of some segment

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of the desired future. Some may be long-term, others short-term, still others momentary, but they are always in the future anyway.

2. That is why *time is a major factor in management.* It plays a key role in the management process. The material from which the future is built is uncertainty. Management is dealing with the uncertainties of the future. This is done in three alternative ways – either by ignoring them and using only security, or by cautiously accepting them within limited boundaries as risks, or by accepting them widely because of the positive expectation that the more uncertainties there are, the more they will become opportunities instead of risks. These methods correspond to operational, tactical and strategic management.

3. Physical time is *one-way.* The events of the past are irreversible. We cannot change the past, and we cannot predict the future in detail. There is a clear asymmetry between past and future – the past is clear and secure, and the future is characterized by significant uncertainty. If in space we can move in any direction, then in physical time we move only in one direction – from the past to the future. This is an axiomatic situation in the physical world, described in the so-called “Arrow of time” concept by British physicist Arthur Eddington.

4. Many philosophers derive the only direction of time from *causality.* When we say “cause gives rise to consequence”, it is understood that the consequence appears after the cause. But the point is that the very definition of the causal order presupposes the existence of a time order, i.e. the existence of “before” and “after”. Is there a loop – causality or time?

5. Why do we assume that time moves in *only one direction?* The problem is in accepting the single direction as the only quality of the past-future biome – why from the past to the future, but not vice versa? It may be paradoxical, but there is no reason for such a belief in the laws of physics. In all the physical laws discovered so far, no difference has been found between the past and the present. However, we are not interested in physics and physical time, but in social time.

6. There is a difference between *physical and social time.* We are interested in the latter because governance is a social phenomenon. In contrast to physical time (be it cyclical, axial, linear, nonlinear, branched, etc.), social time is anthropocentric. In this sense, it is a creation of social subjects. More precisely, the facts in it are mental and only in this way – a matter of specific reality. Man-made time begins to manifest properties that are different from the properties of physical time. It can be said that with regard to the past, social time is mythological. In relation to the present, it is existential time. As for the future, it is a doctrinal time.

7. What has been said gives grounds to think about the *two-way nature of social time.* The first direction is the traditional one: from the past through the present to the future. The second alternative direction is the move from a distant future ideal “back” to the foreseeable (manageable) future. In operational and tactical management, goals (as images of the desired future) are constructed on the basis of past trends, which are extrapolated to the future (forecasting). This follows the traditional progressive movement from the past and the present to the foreseeable future (this is the end goal to be achieved). Conversely, in strategic management there is a departure from the indefinitely distant ideal future “back” to the foreseeable future, for which end goals are set and planned (i.e. this is the time segment that is actually managed). (Stephen Hawking’s thesis about the existence of two dimensions of time is important – real and imaginary. Real time, according to him, moves from the past to the future, while there is no sequence in the imaginary – it is located in the plane of events that appear together between the two poles moment-eternity and resembles the inner psychological time of man.)

8. In order to determine the direction, it is essential *where one starts from*, what is the starting point – the past or the distant future. It doesn't matter where you end up, because the destination is always the same: these are the specific end goals for the foreseeable future. In the first case, the starting point is the objective past and the move is through the present reaching the foreseeable manageable future in the form of end goals. The latter are in fact an extrapolation of the past. This is a more common case, a matter of trivial routine in management. The second case starts from a most distant and grand subjective goal: distant in time and abstract, and the move is to setting another goal, this time an end-goal for immediate achievement in the foreseeable future. It is therefore a movement from the more distant to the foreseeable future. In fact, in both of the above cases, end goals are reached in the foreseeable future, but in the first case one starts from the past, and in the second – from the distant future. The first case concerns operational and tactical, and the second – strategic management.

9. The result of the second type of movement, i.e. moving “backwards” in physical time, can be called a *total future*. First, the vector of such a movement lies entirely in the future without touching the present for even a moment. The starting point is the model of the distant future, the final point – a closer in time derivative model of the foreseeable future. There is a certain “absoluteness” of the future in this fact. Second, the remote ideal, itself a result of the subject's early value orientation and its subsequent delicate adaptation to the epochs of the subject's existence (not microscopic episodes), has more or less systemic characteristics. Systematicity cannot be a characteristic of the “ordinary” future from the vector past → present → future. Therefore, in the second case in question, a system of two interconnected models of the future is formed, one more general and the other more specific, without anything more stemming from the past or the present. (For example, the subject with a life strategy “writer” knows with greater or lesser clarity how he himself looks like to society one day as an established name in literature and society. From there he constantly “returns” to himself in his own distant future, writing another story, novel or play as immediate goals in the foreseeable future.) Thus, the “total future” is in fact a relatively well-structured operationalized ideal. It consists of the subject's strategic behavior value basis and a series of specific goals to be achieved in more recent moments in order to realize the ideal.

10. It is known that *moving in time affects the size of final values*. It depends on how long the movement takes. On the one hand, if we start from the past, it turns out that the longer the achievement was expected, the more it depreciated. Or, in other words, the final value decreases compared to the initial one. (It is well known that people often do not value their achievement so much when it is finally reached after a long wait.) On the other hand, in reverse, when the beginning of the path is the distant ideal, it happens that the closer a subject gets to his enduring “ultimate” life goal, the more its value increases for him. In other words, the value in such a case increases in the case of moving away in time. (The same people progressively value their achievements in the direction of their cardinal life goals more and more throughout their lives.) The big question is what makes it possible for these two opposites to coexist.

11. *Depreciation is always associated with the traditional movement of time from the past to the future.* This is reflected in detail in economics. “One hundred (dollars) today is not one hundred (dollars) in 10 years” is a well-known phrase. Something worth 100 today won't cost that much in a year, much less in 10 years not because it's damaged or stuck. Current values differ from future ones. There is one main psychological reason for the origin of this effect: people would prefer 90 to 100 if they received it immediately rather than over time. The fact that we do not pay so much attention to the future is due to our tendency to weigh satisfaction in the near future against that in the distant future. Apart from the psychological reason, the impact of some risk factors is

also pointed out: inflation, the available risk, the decrease in the value of money, etc. In any case, depreciation over time is considered an indisputable and even unalterable fact. That is why the concept of natural interest rate has been introduced in the economy. Natural interest is the ratio between the value attributed to the satisfaction of needs in the immediate future and that attributed to the satisfaction of needs in the distant future.

12. People show *inconsistent preferences over time*. For example, the empirical observations of Tversky and Kahneman show that the same people would choose to hurry once and wait another time. Someone who spends and borrows immediately is just as rational as someone who spends and saves in moderation, or as someone who keeps his wealth and never spends it. Different people have different rates of preference over time, and they themselves are able to change their preferences for future consumption.

13. In economics, the gradual constant depreciation, in particular of future cash flows, is explained by the effect of *discounting*. Discount Utility is the usefulness (desirability) of a future event, such as the consumption of a certain amount of goods, as it is perceived at the moment, and not at the time of its occurrence in the future. It is calculated as the present discounted value of future utility, and for people with a time preference for earlier than later satisfaction, it is less than future utility. It follows that the goals are subject to discounting, as they are a desired condition in the future. They should depend on their distance in the future from the present moment.

14. Discounting as a philosophy does not refer to price, but to *value*. Probably the theory of discounting is the most developed explanation in science of the constant depreciation of monetary values over time. Discounting in finance is a method of analysis in valuing a financial asset taking into account the time factor using the concept of the value of money. Present value (PV) is the present value of a future cash flow, discounted at a certain interest rate. Future Value (FV) is the value that money will have at a specific point in the future at a given interest rate. The two values do not match due to the effect of the time factor.

15. Discounting is a *means of finding the present value at the future or the present value given the discount factor r (the rate of future depreciation)*. This is the opposite of interest (the degree of valuation in the future). All future cash inflows must be discounted to date for government to find their net percentage. The method of discounting used in the economy is the so-called exponential discounting which estimates future cash flows in the form of ‘how much money must be invested today at a given return to produce a certain cash flow in the future’.

16. Some economists argue that subjects are typically affected by something called *time myopia*. What is it about? Subjects generally make inter time period choices (choices between a value represented at one time and another in the future). In such cases, they need to consider the present discounted value. Each period of the future is exponentially discounted (i.e. with the same interest rate). Thus, it turns out that discounting is a steady process of depreciation. The typical consumer response to uncertainties in this second case is to drastically reduce the importance of the future in decision-making (or decision-making for the future). Expressed in everyday language, this effect is expressed in the play “Eat, drink and have fun, because tomorrow one may die.”

17. The alternative type of *discounting outside economy* is usually used in public decision-making and is the so-called *hyperbolic discounting*. It refers to intuitive decision-making based on the judgment that “more needs to be done today in order to achieve more than what is desired over time, because then what is desired today will be depreciated to the respective degree.” This degree, according to economists, is determined intuitively in hyperbolic discounting in non-

economic management. (It is no coincidence that in economics hyperbolic discounting is a time-inconsistent model of discounting delay.)

18. Following the latter, it can be assumed that all types of values are subject to depreciation overtime, not just money. There is no other way, since money is the equivalent of any other value – if it depreciates, the same happens with its equivalents. Therefore, the effect of discounting refers not only to the value of cash flows, but also to any varying values – tangible and intangible. It is well known that people who have lived together for decades do not maintain their original close relationship. If we have to look for a psychological reason for this again, it can probably be found in the so-called “burn out” effect, psychological “cooling down” over time related to a once strongly desired object or activity. Of course, this is not a sufficient factor and other objective not just subjective sources of such an effect must be found.

19. The effect of discounting is a constant and steady rhythmical process of depreciation over time. It has its own logic. It is present even in periods of deflation. Therefore, there is a serious difference between depreciation caused by discounting and inflation. The reasons for the discounting effect cannot be only subjective, as is commonly thought (see above). Objective determining reasons should also be found, much more fundamental than psychological ones. Do values decrease over time and for objective, other than subjective psychological reasons?

20. A hypothesis that discounting is due to a decrease in time of the relative rather than the absolute values of the final targets is possible. This might be the objective reason for the depreciation over time of any values. With the departure from a given moment, taken as a starting point, new and new objects enter the scope of the subjective activities, new and new goals are formulated. Each of them has its own absolute value. Thus, with the pace of moving away from the initial moment, newer and newer goals enter the area of subjective actions. While the absolute value of each of them remains intact, it is clear that their relative values decrease as they enter into “competition” with each other. For example, family relationships gradually include goals such as raising children, their education, home expansion, professional development of each partner, and so on. Given that, the value of each of the family partners decreases relatively, though not absolutely. The new goals narrow the space of the older ones that have not been realized yet. This situation applies to all values, of course. Over time, their relative value decreases.

21. Discounting is a direct expression of time. Thus, it is related to the *average speed* of all ongoing processes. The life of each subject, be it an individual or an organization, is immersed in its own social environment. That life proceeds at the “speed” specific of this environment. For example, it is one in traditional communities (“rural”), where the speed of change is slow (changes are small and rare). In such an environment, the processes take place to a large extent as they have been many times before. Another is the speed of change, for example in the multimillion city, where innovation is common. It is natural in such a case to assume that the faster the speed of life, the faster the goals lose their relative value, because new and new objects fall into the life perimeter of the subjects. The average speed of life as a factor for the rate of depreciation of the final targets is analogous to the interest rate in business discounting. It is possible to find quantitative formulas for calculating that socio-political “speed” in question. For now, we come to terms with the assumption that such a phenomenon exists. In other words, the faster the social time (= higher central interest rate in economy), the greater the depreciation; the slower (limited changes), the less the depreciation. (This is analogous to the thesis that the smaller the difference in value attributed to future goods, the lower the percentage of natural interest).

22. The effect of discounting is not caused by the direction, but only by the *distance* in time of the goals. The larger the time frame, the more the relative value of the goals has decreased compared to other, newer goals. The effect of discounting occurs both when moving “forward” from the past to the foreseeable future and “backward” (backward from the first physical point of view) from the distant future to the same foreseeable future. The target closer to the starting point has a higher value than the farther one. When one follows one or the other direction, he/she starts from a high value in order to move smoothly and gradually to a lower one. In the first case, moving “forward” in time, the nearest goal is the most preferred. In the second case, the “backward” movement in physical time, the most distant general subjective goal is the most preferred, as it is related to the self-realization (or “self-actualization” in Maslow's terminology) of the subject. Any distance from both starting points leads to a loss of value.

23. It follows from the foregoing that the discounting effect in public governance based on time distance has *two opposite manifestations* depending on the direction of social time. Regular discounting, where the value of more distant goals in the future is lower, is the result of the traditional movement of time “forward”, from the past to the future. This manifestation is characteristic of operational and tactical management. Goals gradually lose their relative value. Conversely, in the movement “backwards” in time, i.e. from the most distant and extremely valuable aims to the closer in time end goals, there is a gradual decrease in the value of the goals. The closer to the distant “ultimate” self-actualization of the subject is a goal, the more valuable it is. However, the closer to the immediate future the specific goal is and, accordingly, further from the “ultimate”, the lower its value.

24. The *conclusion* from all this is that the objectives in operational and tactical management lose their relative value over time due to the effect of discounting in the public sphere, while the strategic objectives leading to the self-actualization of the subject increase their value with increasing the time interval from the near to the distant future. Or, in simpler words, operational-tactical impatience “I want it all now and not later, even if it's less” as a philosophy opposes the strategic ability to wait “Let me have it later in order to receive more.” And, the more dynamic the social environment, the stronger this effect would be.

SOURCES:

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