



On Idea Futures

- Making Politicians Put Their Money Where Their Mouth Is

Eudoxa Policy Study #2

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-Making Politicians Put Their Money Where Their Mouth Is

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This series of policy studies are published by The Eudoxa Think Tank. They address issues that are current or will be in the near future. Eudoxa Studies are in depth studies on how emerging technologies impact our culture and our society.

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About Eudoxa

The Eudoxa Think Tank is a think tank based in Stockholm, Sweden. The main focus of the group is explaining the cultural impact of emerging technologies integrating the analysis with classical free-market ideas and dynamist thoughts of experimentation, innovation and decentralization.

We work for a diverse society based on a strong moral foundation of individual rights, where individuals have the right to utilize modern technology and medicine according to their own moral judgement. We believe this foundation promotes tolerance and acceptance that will tie our society together, not break it apart. The inspirations behind our vision are a firm belief in individual liberty, free enterprise, a limited government and that ideas have impact on our society.

Eudoxa currently has staff working out of Stockholm, Sweden and Kansas City, Missouri, giving them the advantage of being able to approach both the European and American market with a comprehensive perspective drawn from experiences from both continents.

Executive Summary

The study explores the ideas behind DARPA's controversial Policy Analysis Market research project by comparing it to more traditional futures markets. An idea futures market is supposed to provide policy makers with more robust and complex information based on individual knowledge, represented by the individual investments. But PAM fell prey to the problem it was thought to cure; misinformed politicians chose to shut down a project that was portrayed as "gambling on terrorism".

On Idea Futures

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Pentagon is probably the last organization you expected to start internet gambling. The news about the opening of DARPA's internet based futures market for the Middle East created a massive reaction. Democratic senators claimed that "speculating on terrorism is morally wrong" and that the plan was a sick game. Deputy Secretary of Defense, Tom Wolfowitz described the project as too imaginative, and the head of the project, Dr. John Poindexter was forced to resign by the howling media storm. The project was shut down before it had even started.

But what was this all about? Another bizarre project by the military industrial complex to line their pockets further? An example on how media determines important policy decisions? This affair is an ironic illustration of the dilemma that today's decision makers and scientists have ended up in.

The idea behind the project was suggested by the economist Robert Hanson of George Mason University more than 10 years ago. He had observed how the trade with futures works for commodities like farming products. The prices set suggested future availability and demand without relying on any central planning. Orange Juice futures in Florida predict the weather with amazing accuracy. His thought was to create a futures market for ideas. In a market like this you would be able to buy and sell futures for future events like "solar cells will supply 13% of the energy consumption in year 2010" or "a computer will beat the world champion of chess before 2020". The price will become a gauge on what futures that the participants believe likely to happen. The futures that the market has confidence in will demand a higher price, and since they have invested money in the future, they will also be likely to invest more money based on this information.

The project has been subject for academic discussion during the 90ties, but the only tests have been simulations with Monopoly money or closed groups. In this setting the market has functioned well, University of Iowa's market has consistently been more successful than the polls in predicting the outcome of the presidential elections. A real market will demand real money and will be subject to American gambling legislation. Economists have been arguing on how stable these markets will be against speculation, and if they could be used to finance research.

The prospect of getting access to a wide range of information on the volatile Middle East was tempting to DARPA, and they set about building a real policy market. The goal was never to predict individual terrorist attacks, but rather public geopolitical trends in the area like "Will the chances for disruption in Saudi Arabia increase or decrease if USA moves their troops out?" or "How will the price of oil be influenced by a Palestinian state?" Participants could buy and sell futures for future happenings and specialists from the Economist would determine weather or not they had hit. Advanced programming for economical calculation and web trades

was put into an open website. Many of those that had learned about the project were looking forward to the September 1st opening of the market and the ability to test the theory. The money was never DARPA's motivation, the project would provide useful knowledge no matter if the market worked or not.

Then the media spin hit. The democratic senators Byron L Dorgan and Ron Wyden "exposed" the project and described it as bookmaking on terrorism. Osama bin Laden would log on, predict attacks and then make money on counter bets when he went through with the attacks. The journalists and other interested parties logged on to the market site that got overloaded with traffic and went offline. No explanations and no disclaimer could be issued through that channel. A rapidly growing media image was comprised by familiar images as overly generous government spending, faulty moral assessment and outrageous projects. Through this conventional recipe the story gained momentum without really paying attention to the facts. Abroad the image got the added power of American imperialism and the cynical market. Wolfowitz made the choice of shutting down a small project he had little knowledge about before he got the straight story from his subordinates at the Department of Defense.

Would this project have been useful? Even if no useful information on the Middle East would have been acquired, we would still have gotten useful information on idea futures markets. Was this dangerous? A terrorist would at the best make a few hundred dollars, at the price of revealing his plans (and his account number). It would not be presumptuous to assume it would be safer and more profitable for the terrorists to take their money to the stock market.

Was the project ethical? Compared to commodity futures trading there is no difference. The world price on wheat is a strong indicator of the amount of hunger, and wheat futures could just as well be called hunger futures. Most all trade has human implications, and even if we like to say that human lives are priceless we still get life insurance. But these logical arguments will be defeated by the moral outrage. The core in the attack was the presumed immorality of trading with risks.

The term "fighting terrorism" has become so charged that it has become what Psychology Professor Phillip E. Tetlock at Ohio State call a sacred value. This is something beyond the secular values, and even if the severity will vary, there is always a taboo against weighting a sacred value against a secular value. Just as we abhor those who put a price on a human life, an American politician can not allow himself to treat terrorism as if it was a regular political issue. To cut a long story short, the project hit an exposed nerve in the American society. The administration had no other choice if they wanted to save their face.

The affair also shows how months of research and development can be undone by a quick and panicky decision. This trend has become more common these days by the increase of politics on the academic world, and the increase of the speed that

decisions can be made by. Even private research has become vulnerable to the Board of Director's concern over a bad public image.

In the eyes of the scientist, this is a threat. If he runs a project that can be misinterpreted by the media, this being stem cells, a new medication or research on the climate; he runs the risk of being "exposed", having to run the steeplechase of the fourth power and then see his work being shut down by frightful and misinformed politicians. The most obvious solution is to evade media attention. There are few gains for a scientist in seeking media attention in the first place; in fact your peers might even see it as a weakness and the risks is noticeable. It has become common for projects to hide behind long and obscure names, avoiding sending press releases and becoming hard to reach. DARPA's Policy Analysis Market could easily have made it without opening up to the public. The use of Monopoly money could even have been enough to save it although it would still be open to criticism of being a sick strategy game. The only complete protection is obscurity.

On the other hand, the public has a right to know what their tax money are being spent on, and media has a real task in exposing dangerous or morally questionable projects. But if everybody is hiding in the brushes; how will you know which is which? The irony of the faith of the Policy Analysis Market illustrates exactly what it was thought to solve.

The weakness of a centralized decision structure is that it can make wrong decisions if the information it gets fed are wrong. Traditionally our politicians relied on experts to provide accurate knowledge on the issues at hand, but today the media has an increasing importance in this role. On top of this the increased speed of information through the media leads to increased demands on the speed of decisions made by the politicians. The lack of information or an unintentional bias can lead to a wrong decision, which is implemented immediately. Not to say that the expert governance of the past was perfect, it led to elitism and lack of transparency. The hard thing is to find a balance between right knowledge and public input in the decision making.

Hanson's thought was that a system with many information sources, each and every one with local and unique knowledge would gather information in a broader and more robust way. It is not only a question of what the majority thinks, but a nuanced collage where many groups can speak their mind through influencing the market. This would give the policy makers better information and prevent one bias to dominate their information. Many decisions could be left to the market directly instead of being top down.

This might also contain the answer on how research can be done both with academic freedom, public transparency and government oversight. Many projects are worth completing, even if they can be perceived as silly (like studies on efficient toilet cleaning) or highly controversial (like stem cells) while others can be

eliminated without further ado. This demands a compromise between scientific use, ethics, economy and political goals and can only be achieved by a complex decision process. If the decisions are spread out on more parties, you slow down the reactions and fortify against the impact of media spin, this will give room for more diverse input and more information gathering before a decision is made.

Conclusion

The idea futures market as a support for decision making has not been disqualified by the Policy Analysis Market affair. The interest for this idea has rather been strengthened, but it is likely that the tests will take the slow road and use Monopoly money and closed projects. This kind of markets will most likely be looked upon as the common way of doing policy analysis and making decisions upon one day, just as the once controversial life insurance has become common today.

I am willing to put money on it.