Public managers and the economists

Luiz Carlos Bresser-Pereira

Section "Perspective" of *Public Administration Review*, 2014.

In the public management literature, a theme that is always present is the relationship between public bureaucrats and politicians. Since they both define policies, they compete as much as they cooperate in policymaking. Top public managers are policymakers, and the schools forming them often call themselves schools of public policy instead of schools of public administration. The choice is comprehensible. What is less understandable is why public managers leave economic policy as an exclusive domain of the economists. If public managers don't passively accept the policies proposed by politicians, why don't they have the same behavior in relation to economic policies? And why don't we have a literature discussing the relations between public mangers and economists?

The likely answer to my question is: "because it is a very specific science that only economists are able to master; it is a very abstract thinking full of mathematics that we are unable to understand and discuss." But if economic policies are so complex, politicians would also be unable to have a say on the matter, and, even more, the people. That would mean that we not live in a democracy, but in a technocratic authoritarian regime. Further, is this mathematical economics really required to evaluate economic policies, or are the basic economic theory that we find in introductory textbooks and the information and debates that we read in the media on actual economic policies enough?

Luiz Carlos Bresser-Pereira is emeritus professor of Getulio Vargas Foundation. He was minister of public administration of Brazil in the first Fernando Henrique Cardoso administration, between 1995 and 1998. (bresserpereira@gmail.com.br, www.bresserpereira.org.br).

My answer is that they are enough – not fully but basically enough. While the two supporting methodological sciences (econometrics and economic decision making theory) require a high level of mathematics, good economics does not. And for a simple reason: differently from econometrics and economic decision making theory which are methodological sciences, economics is a substantive social science; it deals with human beings whose behavior cannot be predicted mathematically, nor deduced from axioms. The correct form of defining laws in economics is not sitting down in an armchair, adopt some hypotheses, as the *homo economics* and the law of diminishing returns, and, from these feeble foundations, formulate a system of models centered in the general equilibrium model, whose criterion of truth is not the adequacy to the real world but the internal coherence. The alternative method, the one that was followed by Adam Smith, Marx, Keynes and Schumpeter, is to observe economic behavior, look for tendencies and regularities, and, once they are found, to make generalizations, building historical or empirical models. In other words, the scientific method required by substantive sciences and in special by social sciences is not the hypothetical-deductive, but historical-deductive method; its models are not fully consistent and closed models as are the ones of mathematics and the other methodological sciences, or the neoclassical economic models, but open and relatively imprecise models. As a trade-off, the general economic theory created with the use of this method is not a theoretical castle in the air, but a body of knowledge with some predictive capacity that men and women with high education have no difficulty in understanding, and in using to formulate economic policies.

Thus, public managers who are not economists, but know some basic economics, are fully entitled to discuss economic policies. More than that, given that they are endowed of a part of the power of the state, they are *required* to do that. If their basic task is to help politicians to define policies, they are part of the political and technical process of formulating economic policies. In the same manner that they have their views on education, health care, or security policies, they must have views on economics and on economic policymaking.

Besides, economics is not just the science on how markets allocate or coordinate factors of production, but also on how the state participates from this task. In microeconomic terms, markets are an excellent institution to allocate the factors of production of the *competitive* sector of a national economy, not of the monopolist sector. Second, markets are unable to coordinate the national macroeconomic systems. Such systems are highly instable, and require an active and competent macroeconomic policy. Actually, economists may know better the abstract market, void of men and of passions, that is associated to neoclassical economics, but they often have a false knowledge of the real national market systems to which economic policies are designed. They assume that the macroeconomic system is well coordinate by the market, provided that the state keeps its fiscal accounts and the supply of money under control.

Economics emerged as a specific social science only when the first countries made their capitalist revolution – and the coordination of the economic system ceased to be controlled by religion and the ancient state, to be by the modern state and, for the first time, by an institution regulated by the state: the market. For that reason, economics is often called "the science of markets", but actually is "the science of markets regulated by the state". In each modern society the state, here defined as the law system and the organization that guarantees it, is the fundamental institution.

Lawyers study the law system, public managers study and manage the state organization, economists study a major institution regulated by the state: the market. If lawyers have a broader knowledge of the law, if economists are supposed to have a broader knowledge of the markets, public officials, in so far that they are governing, are supposed to know better the state organization, and to have a broad knowledge of the law and of the markets.

It is well established that top public managers are or should be generalists. What does this means? Essentially, that they are supposed to have a broad vision of the society and the state that they serve. But in a world where knowledge became specialized, they must dominate some specific fields. They don't need to have a PhD in economics, or in education, or in security, to have a say in these fields. In the case of economic policymaking, it is enough that they have a general idea of the national society, of its state and its market, and of the economic relations with the rest of the world.

A PhD in economics probably would *not* help him much. On the contrary, given the alienation of the real world that characterizes the graduate teaching of economics, an economist able to propose policies must *forget* the core neoclassical theories learned in his course, and, on one side, use his experience, his intelligence and the knowledge of the basic economics existing in good introductory textbooks, and, on the other, use his intelligence and his knowledge of his country and of the global world.

A perfect example of what I am affirming is Paul Krugman. To write his excellent book *End this Recession Now* (2012), he ignored or "forgot" the neoclassical economics that he learned. Instead, he combined some basic economics with basic Keynesian macroeconomics, and let this knowledge to be controlled and checked by his extraordinary intellectual capacity. Public managers may do the same. It is true that most of them are not bright as Paul Krugman, but their great advantage is that they don't have to forget, as much as neoclassical economists have to become good economic policymakers participating actively from the micro and macroeconomic policymaking process.