

The need for a new public administration

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Abstract

The economic model according to which markets are self-equilibrating rests on a world-view of harmony and stasis that goes back to classical China, and was already fully rejected in all domains of science and also in political economy in the 19th century. Somehow it survives in textbook economics to this day. A new public administration needs to rest on modern scientific habits, recognizing that all biological, mechanical and social systems require effective regulation, not to "reduce externalities" but because otherwise they cannot exist at all. Once this is recognized, the task of government is to make regulation and public provision of services work well, minimizing predation, parasitism, force and fraud.

Public administration was at one time an essentially pragmatist and Institutionalist discipline, concerned with imparting best-practice knowledge of procedure, hierarchy, the missions and functions of agencies and the separation of powers, as well as rule-making and budgeting, under a broad structure of belief that organized methodical action – the stuff of bureaucracy – was more likely to bring success to the state than the impulses of kings or dictators or the habits and dogmas of priests, let alone those of mad charismatic commanders on the battlefield. One might say that in modern America public administration was rooted in the victory of Grant over Lee.

As a discipline these ideas were founded on Hegel's admiration of the Prussian state and Weber's concept of bureaucracy as the vehicle for rational action. These reached their zenith in America with the Progressive movement, the New Deal and the (popular image of) industrial mobilization for World War II. By the 1960s that zenith was past. The application of bureaucratic rationality to the Vietnam war did a great deal of damage. And as the administrative state took hold in the civilian sphere, it engendered an ethno-populist reaction to civil rights, voting rights, anti-poverty programs, public lands and environmental protection. The "best and brightest" were reviled by one camp and the "pointy-headed bureaucrats" by another.

At the Pentagon in the 1960s under Robert McNamara teams of analysts attempted to establish rational control of a vast establishment, riven by internecine rivalries, through the tool of the budget. This was the Planning-Programming-Budgeting-System (PBBS); a later incarnation was known as Zero-Based-Budgeting (ZBB); still later these ideas were disseminated and reached even to Texas (and other states) in the loosely-related form of Sunset Review. The idea was to use the budget to empower an evaluation function in an otherwise highly inertial, even uncontrollable system. An analogous notion was that of macroeconomic control through the counter-cyclical variation of the federal budget. A still-later and still-current idea was the use of congressional Budget Resolutions to force choices between programs and to discipline the growth of total government spending. Success was in all cases imperfect.

The ethos of analysis had a strong bearing on the formation of university programs in public policy, which were layered over public administration institutes and programs in the early 1970s as the veterans of the Kennedy and Johnson administrations took themselves back to

academic life. A core curriculum in policy would stress – and largely still does – analytical concepts drawn from welfare economics, statistical and econometric techniques, public budgeting as an instrument of policy control, and – not quite as an after-thought, but with diminished place and prestige in the programs – some basics of management, accounting and administration. The premise of the curriculum is that policy analysis has a role in the improvement of public decisions. It is that evidence and technique can be brought to bear on some larger public goals – national security, social welfare, environmental protection – and that it is within the capacity of social science to improve well-being by adding here, trimming there, that is, to evaluate the merits of alternatives at the margin.

Not everyone was persuaded. Early on, the curmudgeon Charles Lindblom advanced the counter-hypothesis of “muddling through” as approximately the best one could hope for. Aaron Wildavsky developed a school of budget marginalism – the positive rather than normative analysis of small changes in program spending over time. In glosses on Wildavsky, I (and later, Calmon and still later, Berner) recast budgetary marginalism as the least-conflict resolution of an evolutionary negotiation or sharing game, using numerical taxonomy to classify the players who underlie accounting categories in the budget. Still, by and large, the premise of intended policy rationality held.

From perhaps the mid-1970s forward, the project of policy rationality faced a take-over by economists. For this the groundwork had been laid by Samuelson and his academic allies, who framed the public sphere as one of “market failures” characterized by externalities or public goods. This framing accepted the centrality of markets to the social ecosystem, restoring a concept of equilibrium that had been subordinated for 40 years to the necessities of fighting Depression, winning a war, and fending off the juggernaut of world communism. In a mental compromise typical of establishment liberals then and since, the inevitability of a public sphere was acknowledged but its role was defined as auxiliary, if not peripheral, as necessary yet somewhat regrettable – as something to be deployed only to the extent that “the market” might not be able to do the job on its own.

Following these lines, in the Carter years the Council of Economic Advisers under Charles Schultze interjected economists throughout the federal inter-agency decision-making process, the concept of cost-benefit analysis began to be applied to “interventions” by regulatory agencies, and there was a wave of “pro-competitive” deregulation, notably in trucking and the airlines, following textbook models and the professional certitudes. Both cases produced adverse effects on wages for the affected workers, and unforeseen consequences for the organizational pattern of the industry. By the end of another generation, airlines were larger, but just as concentrated as they had been in the early 1970s, with a handful of carriers dominating the domestic market. Alfred Kahn, architect of deregulation, remarked later that it had not occurred to him that airlines were something more than “marginal costs with wings”.

After 1981, and following a brief early pause in the deregulation of trucking – a political gesture to the Teamsters for having backed him in the 1980 elections – Reagan’s administration deepened the commitment to economism, embedded cost-benefit analysis formally into rule-making and created an Office of Information and Regulatory Analysis in the Office of Management and Budget, which became an obstacle course and choke-point for the implementation of congressional intent.

Over time, the influence of economists and their allies in “law-and-economics” in rule-making and in the larger processes of fiscal control became decisive. Under Clinton and Gore the

watchword was “reinventing Government” through a commercialization of the relationship between the public sphere and the private citizen, alongside business-friendly deregulation especially in the critical sphere of banking and finance. Under George W. Bush deregulation was complemented by desupervision and (as William K. Black has put it) *de facto* decriminalization of financial fraud, along with the reduction of personnel and their replacement by websites and online “services”. Under Barack Obama, behavioral economists had their turn, introducing the concept of the “nudge” into regulatory design and process.

Throughout these variations, the reputation of government came under repetitive deprecation. In particular the analytical concepts of “rent-seeking” and “government failure” were added to that of market failure, despite the fact that government had never been made the center of the analytical frame, the standard against which other processes should be measured. There was no modern analysis – none since Hegel and Weber, holding as neoclassical economics did for markets that government processes were somehow naturally optimal. At the height of the New Deal, for instance, Roosevelt’s message was experimental: “take a method and try it. If it fails admit it frankly and try another. But above all try something”, while in the 1960s the mission of the defense analysts (and later, the anti-poverty analysts) was to wrestle with the *pathologies* of bureaucratic process. The classic defense of democracy was only that it was better than the alternatives. In this sense the economists’ assault merely stated the obvious, while lending ballast to anti-government zealots, of whom the economists did not openly approve.

And government shrank. The government shrank, shedding employees and functions, to the point where by 2017 it was small enough, apparently, to be drowned in the proverbial bathtub by the new administration of Donald J. Trump. That process is now underway. The mask of analysis has been dropped and the underlying agenda, which is to turn public lands, resources and functions over to private parties, is transparent. In other work I have called this “the Predator State”.

As noted, as a rule mainstream economists do not personally support the displacement of technocrats and analysts in favor of direct rule by plutocrats and lobbyists. Their worldview is moderate. They favor a process of reasoned mediation between market forces and other social concerns. Such a process incidentally provides employment for economists. But more to the heart of the matter, in the eyes of the economist the existence of a process of technical and analytical review is justified by the standing of analysis; analysis generates a presumption of legitimacy that might not otherwise be there. Analysis can sugarcoat rapine; an ecologically-destructive project for which a permit is issued after an analysis is easier to accept, than the identical project would be in the absence of a review. But to be fair, the outcomes are not always anti-government. Cost-benefit analysis can from time to time support an intervention into the market, making an otherwise contested case for a regulation stronger than it would otherwise be.

Still, having placed the market at the center of the decision-making universe, having decreed the general superiority of price-adjustment as the foundation of social interactions, having embraced the ancient notion of equilibrium – which dates back to classical Chinese notions of celestial harmony, of yin and yang – and having never absorbed the idea of evolution, economists leave the burden of proof, almost always, on the advocate of “intervention”. If there is doubt, or a balance of judgments, non-intervention or at least less intervention is to be preferred. The unstated presumption is that the market process exists independently of the “intervention”, and is governed by “natural law”. It is presumed that without the government’s

role, the results of the market process might be better, or might be worse – but that there would *be* a market process and there would be *a result* of that process.

This presumption is almost entirely false. Marx long ago pointed out that there was no such thing as “Nature” in its pure or primal state; all purportedly “natural” environments on the planet were and have been transformed by human endeavor over the eons. Something similar can be said about markets and the state: there are no markets without governance and government and regulations. More precisely: just as Adam Smith pointed out that the division of labor depends on the extent of the market, so the extent of the market depends on the reach of the state – on its capacity to provide security, a framework of law and justice, and to regulate effectively in the public interest. Without each of these, many if not most modern markets could not exist in their actual form.

Examples are legion. How well would cars function in cities without streetlights and stop signs? Would passengers fly in commercial aircraft in the absence of air-traffic control? Would homemakers buy and eat fresh raw vegetables if they did not have reasonable confidence of non-contamination by hepatitis and heavy metals? Would appliances and electronic equipment sell so well, if there were no assurance that they would not electrocute their owners, too often? Would banks survive without deposit insurance? Even with insurance, how stable are they when the regulators and the supervisors are taken away? To be sure, nothing is entirely safe. But in each and every instance, some level of public presence alters the economic landscape, permitting businesses and entire industries to flourish that would otherwise be much smaller, if they existed at all.

Since the origin of political economy in the 18th century, economists have placed the productive unit – the farm, the workshop, the factory – at the center of their worldview. They have treated the rest – the infrastructure, public health, social insurance, schools and universities and the regulators – as a support system, a conceptual periphery to the productive core. In fact, as the experience of strategic bombing in Germany showed, modern factories are largely outgrowths of the infrastructure – social and physical; if they are destroyed but the infrastructure remains – as was the case in post-war Germany – the factories grow back quickly, like puffballs after a rain.

Regulation is the key institutional and political component of infrastructure. Regulation sets and enforces standards on matters that the consumer cannot easily see: the phyto-sanitary condition of food, the reliability of machines, their efficiency in the use of resources, the safety and environmental soundness of the production process, the level of wages and the quality of working conditions. The “factors of production” that so bemuse economists – human capital, physical machines and technology – are easily moved, by airplane, ship and optical fiber, from a rich country to a poor one. Physical infrastructure requires a sustained act of resource mobilization and the application of design and engineering skill. This is hard.

But regulation is harder still. To regulate effectively requires the full spectrum of scientific knowledge combined with operational capacity and enforcement, and all of that combined with autonomy from the resentful, evasive and potentially corrupting subjects of the regulatory process. Regulation is a delicate balancing act. It requires a democratic legal process on one side but also a free and fearless scientific and engineering estate on the other – one whose judgments are capable of commanding respect, and are in fact respected. The successful achievement of this balance – where it has been achieved at all – is practically a preserve of the richest countries – acquired painstakingly and easily squandered.

Turning this proposition around, it follows that the deep distinction between advanced and “developing” or “less-developed” countries does not lie in their capacities for education or their adoption of technologies and advanced capital equipment. It does lie partly in their capacity to build and maintain a modern physical infrastructure. But, even more, it lies in their ability to build an advanced administrative and regulatory state. In the poorest countries, such a state is typically altogether absent. In the communist lands, it was present but in a crude and oppressive form, capable of implementing science-based crash programs (the bomb, the space race, military aviation) but not of generating advanced consumer-goods production of high quality and diverse fashion on the mass scale. And it was this failure, rather than any inability to provide the basics of food, shelter and clothing, education and health care, that eventually brought the communist systems down.

There is an exception. In one case, a communist system was able to transform itself into a powerhouse of consumer manufactures, of steadily improved quality and on a volume sufficient to clothe, house, transport and entertain about a fifth of the population of the world. How did China do it? In part, to be sure, by importing technologies from the West, with co-production and technology-transfer requirements on foreign investments. In part, by decentralizing administrative control over a large class of light industry – the township and village enterprises (TVEs). Much more, by prioritizing infrastructure spending so that the foundations of urban life were present to support the production units that cities foster. China’s regulatory systems were, and remain, weak. They are far from adequate to set and enforce the quality controls that are routine in the West. This is a grave – and on the theory above, a lethal – shortcoming. And yet, it wasn’t.

China overcame the shortcoming by a measure as simple (in broad outline) as it proved effective. The Chinese imported regulatory standards from their Western markets. That is, they learned what Western buyers needed, practiced the techniques until those buyers were satisfied, and deployed them at “Chinese scale” for exports but also for the home market. This is why the consumption patterns in China today so visibly resemble those in the West – as they do not, in many poor countries.

China also illustrates the conditions that a failure to regulate engender. Very few Chinese, even now, eat uncooked vegetables or fresh salads. This is because the Chinese consumer does not trust the phyto-sanitary standards under which vegetables and lettuce are grown – and does not wish to trouble with the cleaning-at-home that would be required to reduce the dangers. It is safer and easier to stick with the habit of cooking almost everything in hot oil. But, as it happens, fresh lettuce is available in some parts of China. At least in some of the big coastal cities it is available, for instance, at Sam’s Club, in packages denoting that the lettuce in question was picked and packed in the United States. A reputation for effective regulation makes that market, small though it may be, possible.

The central role of regulation in the development process has been demonstrated in other contexts. In Sweden as early as 1951, Meidner and Rehn explained that wage standards, compressing the income distribution, would work to the advantage of advanced industries and the detriment of uncompetitive ones. Over time, this would (and did) change the mix of industrial activity in Sweden toward the advanced, high-productivity and high-income sectors, notably machinery, transportation equipment, nuclear power, generating an economic surplus that made possible the Swedish welfare state. Something similar was achieved in Norway by well-regulated use of the North Sea oil bonanza. Closer to home, in the 1970s the US Labor Department attacked the problem of brown lung disease among cotton mill workers; the

resulting investments in clean factories raised the productivity and preserved the competitiveness (for a time) of the more progressive textile firms. As is well-known, the State of California sets a national standard for automotive emissions control, a byproduct of the ages-old problem of atmospheric inversion in the Los Angeles basin.

In an advanced society, regulations cover all aspects of every production process. They set limits on the extraction of natural resources from the soil. They discipline the production process itself, with respect to safety, working conditions, carcinogens and much else. They establish standards for the quality of the product. They limit the emission of waste products. Resistance to regulation is the hall-mark of reactionary politics and backward business practices, as for example the case of the coal industry whether in the anthracite hills of Appalachia or the lignite mines of Germany and Texas. Constructive engagement with regulation is the mark of a progressive business sector, as one finds in parts of modern Europe and in parts of East Asia, notably Korea and Japan. Rebellion against regulation is the key feature of the reactionary takeover of American government now underway; it will yield the bitter fruit of market breakdowns, lost competitiveness and a lower living standard in the long run.

Regulations are the stuff of well-organized life, of social order and well-being. But can a country with good regulations live on them? Can good regulations actually substitute for the productive processes that the wealthy countries are increasingly losing to their poorer trading partners? It turns out that, to a degree, this is possible. China, to take the example already mentioned, was (and remains) perfectly willing to export to Western markets for the dubious recompense of an electronic chit in the Chinese accounts at the Federal Reserve Bank of New York. So long as the Chinese balance-of-trade continues in surplus, which is to say, so long as the world remains similar to what it is today, China will never actually use those balances; they will merely add up, one on top of the other. So in exchange for issuing Treasury bonds, which are effortless to produce, the United States (and other Western countries) benefit from a vast flow of Chinese production. The willingness of the Chinese to put up with this can be attributed largely, if not only, to the benefits they get from steady improvement in the quality of the goods that Chinese consume at home. Regulation, and perhaps the contribution made – or once made – by the US Navy to the security of shipping routes, are together significant intangible elements in the US balance of payments; they are cornerstones of the world trading system that has emerged in the age of mass industrialization of what used to be called the Third World.

This brings us back to the need for a new discipline of public administration. To build such a structure, the first critical step is that public administration must be decolonized by the economists. There is no doubt place for ongoing teaching of historical experience and of practice, both in the management of large organizations and in accounting and financial control. I would argue, in another place, for the articulation of a political science of budget behavior based on the simple proposition that the only sustainable equilibrium in a system of financial shares is for each claimant on the public's resources to accept the same growth rate as all of the others. Anything else – it should be obvious – results in relative gains and relative losses, which must eventually come to an end.

For present purposes, however, it seems that a different element of a new public administration is the most essential thing. And that is to understand the function of the public sector from the perspective of the regulatory system.

In related work, Jing Chen and I have advanced a biophysical perspective on socio-economic phenomena that is relevant to the case. Our argument, in a nutshell, is that all living systems – whether biological, mechanical or social – function in accord with certain immutable principles, governed by thermodynamic law. All extract resources from their environment. All process those resources, generating useful energy, put to purpose. And all release waste.

But most important for the present argument, *all* biological, mechanical and social systems must regulate their use of resources. They regulate to keep energy released in the consumption of resources within the tolerances of the materials available for containing and directing that energy to useful effect. Thus mammals regulate their blood pressure (and it is a curious fact that the normal blood pressure of all mammals is approximately the same) and their body temperatures. To keep cool, they sweat or pant; to fight off cold they cover themselves with fat and fur. If the blood pressure goes too high, the classic symptoms – stroke, aneurysm, heart attack – are related to the inability of the processing structures to cope. Similarly for engines: fans, radiators, cooling systems, and metals strong and resilient enough to stay in shape in the face of high-temperature operations. The greater the heat differential, the more efficient the engine.

The need for similar forms of regulation in social and economic systems are so widely known and acknowledged that we sub-consciously adopt the metaphors of biological and mechanical systems. We speak of “depression” in both the psychological and economic sense. We speak of “bubbles” to indicate an intrinsically unstable (because unregulated) phenomenon, destined to fail. When failure happens, we speak of “market melt-downs”. That deregulation is the parent of melt-down in the financial sphere, especially, is so well-established as no longer to require debate. The purpose of regulation is not modify the behavior of an existing market. It is to alter the conditions of economic and social life, so that ever-larger and more-efficient structures can flourish and be sustained, permitting to all a greater access to comfort and an easier and healthier and happier and longer life.

Let me suggest that the creation of a new discipline of public management and public administration in the modern academy should start from this point of departure. To make it happen, it would be sufficient for university leaders and administrators to commit an act of will and a dedication of resources – much as they have done, over the years, to the sciences and engineering and to the practical aspects of business. To make it stick, there would need to be, in the enterprise, an ironclad assurance of dedication to modern conceptions of evolutionary process, and an immunization from the temptations of equilibrium and illusions of self-organized, self-regulating harmonies. These are, after all, classic delusions of an *ancien régime*.

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