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SELF-INTEREST AND INCOMPETENCE

Luiz Carlos Bresser-Pereira

Abstract. All social science's schools have a common assumption: self-interests is the central variable explaining human behavior in society. The author has no contention about that. But says that in contemporary societies a second variable is turning increasingly relevant when one is willing to explain social outcomes: policymakers' technical and emotional incompetence. Incompetent policymakers, who fail to choose the alternative more consistent with their own objectives, even when interests were neutralized, always existed. But now, that an increasing number of social outcomes are dependent on government policy, competence turned strategic. Besides self-interest, competence must be assessed when one evaluates social outcomes.

Social sciences have always been the playing field of controversy. Some advances are eventually achieved, some issues are overcome, and the object of controversy changes. Between the 1950s and the 1970s, for instance, the main divide, within sociology, was between conflict (mostly Marxist) and functionalist views of society; within economics, between the Keynesian and neoclassical schools. Today the major divide is between methodological individualism and methodological historicism, i.e., between the doctrine that social structure and social change are exclusively the outcome of individual decisions, in such way that social scientists will advance knowledge as long as they look for the microfoundations or rational bases behind, and the doctrine that many social and economical phenomena can be explained by social and economic structures, by macro or holist historical forces, which presuppose interests behind, but do not explain social and economic change by adding individual behaviors.

Yet, all schools have in common one assumption: interests are the element that moves people and explains behavior. The classical philosophers were more concerned with the passions than with the interests. But, as Hirschman demonstrated, since the sixteenth century the interests of individuals and groups came increasingly to the center of the stage. They comprised the totality of human aspirations, but, differently from the passions, they denoted an element of reflection and calculation. In the following century they started to be viewed as economic aspirations, and became central to economic reasoning.[1] Today neoclassical economists and rational choice political theorists will adopt methodological individualism and will speak of individuals' interests or of groups' interests, while Marxists will refer to class interests and will adopt methodological historicism; but all will assume that interests drive people. Interests may be passionate

[1] - Hirschman (1977: 32-37).

or moderate, they may be just egoist or may consider others' interests, but in any case interests will be in the center of all explanations of social phenomena and how they change.

In this paper I will not challenge this assumption. I will only say that, when we are evaluating economic outcomes of individual or group behavior, there is another explanatory element: technical and emotional competence implicated in policymakers' decisions. When economic or social outcomes are substantially influenced by policy decisions it is not sufficient to just to consider the interests behind the decisions. It is required, additionally, to ask if the policies adopted have been competent or not. Policies will have been competent if they started from a correct assessment of the situation, and if they concluded for adopting the best existing alternative conducing to the desired goal.

Since I am not writing on the standpoint of moral philosophy, but just trying to understand in positive terms how economic outcomes come through, competent policy is not here defined as the ones that are consistent with the public interest, but the ones that are consistent with the objectives. Yet, the public interest will nevertheless be involved because politicians always decide invoking it, and people judge politicians on this ground.

I have been dealing with this competence variable since the late 1980s. In that moment, when fiscal adjustment and market oriented reforms became also central in the agenda of political scientists, I observed that they always assumed that we, economists or policymakers, were competent, and, so, they limited themselves to look for the political reasons why the "right" policies were not approved in parliaments and put in effect. I argued that the assumption was false. Many policies were not competent – did not conduce to the state goals: stabilization and subsequent growth. And even if the reforms are the required ones, if they are incompetently drawn, approval in parliament will prove to be much more difficult. In many occasions reforms are rejected because they lacked an appropriate and clear-cut design. Thus, in order to evaluate economic outcomes political scientists one cannot avoid evaluating, in a substantive way, policies and reform designs.

In the early 1990s I wrote a paper in which I already criticized the assumption that economic policies are competent, and that the problem is to count with the necessary political inputs to implementing them.[2] Yet, I only developed these ideas while writing a

[2] - See Bresser Perrier @.

paper on the reasons why Latin America remained practically stagnant in the last 20 years: income per capita grew in this period in the region at a yearly rate of 0.5 per cent against 2.5 percent in the OECD countries.[3] The present paper tries to organize and make more rigorous the relations between self-interest and competence in producing economic outcomes.

I will divide this paper in five sections. In the first I will define interests and competence/incompetence. While interests are in the realm of human motivation, competence involves considerations of effectiveness and efficiency. In the second section, I distinguish e policy outcomes from non-controlled outcomes In the third, I analyze the new historical facts that made policy outcomes more frequent. The more the state increases, the more data about economic outcomes are available, and the more explicative are economic theories behind economic policies, the more economic outcomes will depend on policymaking. In the forth section I define policy mistakes and relate them with interests and competence/incompetence. I acknowledge that it is difficult to distinguish which aspects of given economic policies and their corresponding economic outcomes are due to interests or to competence, since these two factors are interwoven. Yet, as in several circumstances interests are neutralized, or not well defined, there is a large room for independent policymaking. Finally, in the fifth section, I will argue that, although incompetence may be viewed as a systematic factor determining economic outcomes, its relevance may be reduced if policymakers are able to learn from their mistakes. They will do so if some common ground was achieved within civil society, if democracy turned into the dominant political regime. But even so competence will continue crucial because problems policymakers face are increasingly complex and change at increasingly faster rates.

Some definitions

When we think in interests motivating human behavior, we usually oppose them to two different concepts: passions and altruistic behavior. The assumption is that self-interests are moderated passions, or, more precisely, are the search of each one's own good after due reflection. Calculation is essential because often the individual is supposed to control his desires, to comply with the social norms and values regarding the question involved, so as to be able to get maximum possible outcome.

[3] - See Bresser Pereira (1999): "Incompetence and Confidence Building behind Latin America's 20 Years Old Quasi-Stagnation".

If we accept that interests are the overwhelming force behind human behavior, there is no place for altruism. Or, more precisely, apparently altruistic actions will only make sense if they respond to social demands and the corresponding institutions, and are rewarded with social esteem. In the same vein, egoistic actions, responding to our interests, will not be adopted considering our own interest if they offend the law and the shared values of a society. Institutions have precisely this objective. To make individuals to act according to patterns that would be considered altruistic, cooperative, if the laws were not present.

If we give less weight to self-interest, we may consider the real case of altruism. We may assume that men and women's behavior are the outcome of interests, compliance to institutions, and spirit of cooperation or altruism. I am convinced that this third factor plays also a role, but it seems reasonable to adopt the scientific posture of not considering it in the more general models. Altruism is relatively less determinant of behavior than the other two factors (direct self-interest and compliance to norms), and there is no simple way of predicting by combining self-interest and altruism.

Interests are related to individual and group motivation. They explain behavior as long as individuals and groups have their own objectives clearly defined, or, at least, well thought. And explaining behavior, thy ultimately explain outcomes.

Yet, in order to understand or to predict outcomes another variable is increasingly important: competence. Competence does not belong to the realm of behavior, of incentives and punishments, but to the realm of effectiveness and efficiency. In order to achieve objectives and to produce outcomes it is not enough to have objectives, it is also necessary to be able to achieve them, preferably in the more economic way. Effectiveness is here the ability to achieve desired goals while avoiding unexpected outcomes; efficiency is the ability of choosing the more adequate means to achieve objectives – the means that minimize inputs or costs.

A competent decision-maker is an effective and efficient individual, who adopts# competent policies. It is the individual that, in a situation of incertitude, chooses among alternatives the ones that are effectively and efficiently consistent with his or her desired objectives. Instrumental rationality – the use of the more adequate means to achieve the desired ends – presupposes competent decision-making. It is in practical terms synonym of efficiency.

Competent policymaking is relative to the state of knowledge on the question. I cannot call a policy, or, more generally, a decision incompetent because it is not using knowledge that it is not yet available. Yet, a competent decision maker is supposed to have the ability of assessing in realistic terms the problem he faces, of clearly defining the various alternatives routes that can lead to the objective, of attributing to each one a value (since different alternatives do not lead to exactly the same results) and a probability of success, and finally, of deciding for the alternative that offers the best value/probability outcome.

The competent policymaker is supposed to know the relevant scientific theories and common knowledge on the subject, but he will turn incompetent if he uses models in an automatic way. Each case is a case, and requires a particular assessment.

The policymaker is a strategist playing a game. Thus, he is supposed to evaluate the possible reactions of the "adversaries", or, more generally, of the individuals and groups that are affected by his decisions. Since he does not dispose of all information, he will be often in the prisoners' dilemma, i.e., rationally constrained to choose a sub-optimal alternative. In this case, he will be competent if he proves to be able to increase information; or, when information remains insufficient, if he, nevertheless, is able to combine prudence with courage, and decide based on his knowledge and experience with similar situations.

The last sentence suggests that competence is not only a question of knowledge and experience. Besides what may call "technical competence", there is "emotional competence". The competent policymaker is supposed to combine prudence with humility and courage. Fear, pride, and arrogance are the worst passions that policymakers confront everyday. Decision-makers in the public sphere are politicians and senior bureaucrats. Or, senior bureaucrats have usually technical competence, but fear and pride are the most frequently found emotions among them. Politicians, on their turn, combine in a more balanced way these three passions, but are troubled by lack of the relevant knowledge to decide.

It is usually more convenient and appropriate to call incompetent policies instead of policymakers. Only when mistakes are burdensome, when outcomes are extremely negative we may be right in personalizing our own evaluation.

Non-controlled and policy outcomes

Outcomes may be of different orders: economic, political, social, and cultural. I will concentrate myself in the economic outcomes. We may think of two types of economic outcomes: policy outcomes, and non-controlled outcomes. In the past all economic outcomes were mostly non-controlled outcomes. Since people could not expect good outcomes from competent decisions, policymaking was secondary and, so, its influence on outcomes, minor. There was no economic theory – specifically macroeconomics – to orient policymakers. Economic growth, price stability, balance of payments stability – the usually more valued economic outcomes – were rather the result of individuals' industry, or profligacy, than of governments' decision. The only thing required from governments was fiscal and financial austerity. Controlled outcomes and competent decision-making only turn relevant when governments are well informed with statistical data, and count upon relevant theory about how to connect these data in a meaningful sense. Or, in the words of Ernest Gelner, "instrumental rationality is feasible only within the limited spheres of our world where rational evidence-sensitivity, which it presupposes, is also possible, and where precise aims are too."[4]

Or, in the last 50 years, since Keynes established macroeconomics as a new and major branch of economics, and data on national accounts started to be accordingly collected and systematized, macroeconomic policy became one of Gelner's "fairly restricted and reasonably well-insulated areas" where instrumental rationality can operate, where controlled outcomes are possible and competent decision making is crucial.[5]

The number of areas, which are subject to competent decision-making, is historically expanding. Besides macroeconomic, social outcomes, for instance, are increasingly dependent on government policies. To be transformed into relatively controlled outcomes, they must involve either strong regulatory power on the part of the state, as it is the case of macroeconomic outcomes, and/or imply the use of large sums of public money, as it is the case of education, health, and social security. Till the end of the nineteenth century, when the tax burden and state's expenditures in relation to GDP were around 5 percent, few areas were subject to effectual decision-making, to effective public policies. Today, these percentage points are 6 to 10 times higher in most countries. Thus, the role of government decision-making turned crucial, and the correlate positive or negative outcomes will strongly depend on competent or incompetent decisions.

Summing up, the greater the availability of relevant theories and data on a given subject, and the greater the regulatory power of the state, the more weighty will be the variable competence/incompetence on outcomes. Or, in other words, the larger will be knowledge and state power, the more economic and social results will be policy outcomes

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[4] - Gelner (1986: 31).

[5] - The words between quotation marks are Gelner's (1997: 27).

rather than non-controlled outcomes, and so, subject to competent or incompetent decision-making.

Policy mistakes

As soon as we have policy outcomes, policy mistakes turn relevant. I define policy mistakes as decisions which are not consistent with the public interest, or, at least, with the declared and socially accepted policy objectives. Bad outcomes are primarily produced by policy mistakes, which, on their turn, have two origins: self-interest, and/or incompetence.

Interests encompass, on one hand, pressure groups, and, on the other hand, the policymaker's interests. Both interests usually appear together, and the usual and acceptable way of doing politics, since they do not necessarily contradict the public interest. But often they are. In this case, the policymaker who proves unable to resist pressure will be either be involved in rent seeking, or his motivation will be the desire of being re-elected (if he is politician) or of being re-appointed (if he is a bureaucrat). Although the consequent outcomes are not socially favorable, I cannot say that decisions are incompetent: they are just mistaken and perverse.

Incompetent policies are always mistaken but not perverse. They presupposes, in subjective terms, that the policymaker is oriented to the public interest, and, in objective terms, that pressure groups interests are neutralized or do not conflict with social objectives. Incompetence may be technical, arising from ignorance; or emotional, originating in fear, or in arrogance. The policymaker may be ignorant because unable to correctly assess the problem, or because is unaware of the relevant theories explaining it. Here is not the moment nor I have the required qualification to discuss the factors behind emotional incompetence.

Mistakes may have a third origin, besides self-interest and incompetence: it could be argued that ideologies express interests. This is in principle correct, but in practice what we often see are old and crystallized ideologies, which lost relation with their original interest, but continue to guide people's behavior.

In the case of developing countries, mistakes often originate from of policymakers' refusal to think on their own. Instead it is quite common to see them involved in the "confidence building game", i.e., in deciding according to the policies that they believe officials in Washington and financial people in New York approve. Doing that they hope that they will improve their countries' creditworthiness and their governments' credibility. Not necessarily. This would only be correct if Washington and New York knew better each country's specific problems than local policymakers. I have been calling this behavior the "confidence building strategy". Paul Krugman, analyzing the Asian Crisis, spoke more recently of the "confidence game" as a major source of mistakes.[6] The confidence building game falls between interests and incompetence, as a source of policy mistakes. Interests, here, are related to the subordinate attitude many politicians and officials in the developing countries adopt in relation to the views and directives issued in the developed ones; incompetence appears in the acknowledgement that others know better, i.e., in the recognition of their own ineptitude.

Historical New Fact

In the past economic outcomes, which were dependent on competent public policies, were few. Policy mistakes had minor consequences. Thus, economists just considering interests in their analyses were correct. A historical new fact changed this simple truth in the twentieth century: the increase of the size of the state, measured in terms of tax burden or state expenditures in relation to GDP. This increase was accompanied by new and relatively much more precise statistical data on economic and social outcomes, and, in certain cases – as it is the case of macroeconomics – by the rise of significant theories orienting policymaking.

Or, if methodological individualism is able to explain many aspects of collective behavior and the corresponding social and economic outcomes, it is less successful in explaining why they change. To explain change we have to look for the historical new facts usually deriving from new knowledge and new technologies. To understand new realities we are supposed to use what I have been calling "the method of the new historical fact", i.e., we have to search for the new historical facts that produced new outcomes. In sequence, we will try to derive an explanatory theory, whose consistency we will check by looking for the microfoundations behind.

The new relevance of policymaking and of its competent or incompetent character is typically the consequence of a new historical fact, or, to be more precise, of a cluster of new historical facts: increase of the state, increase in information, and more effective economic and social theories.

These historical new facts opened room for decision making. But, still, interests have to be considered. There is room for autonomous decision making when the policymaker

[6] - On confidence building see Bresser Pereira (1996, 1999); on confidence game, see Krugman (1998). They add to the same thing: "the confidence building game".

arbitrates between conflicting interests, or when it involves compromising. A second case is when interests are neutralized. Interests and competence are thickly interwoven, making difficult to separate what is result of one or another factor. Interests are everywhere, pressing policymakers. Sometimes they are expressed directly; in most cases they appear disguised, under the form of values, beliefs, ideologies, and theories. Sometimes they are so strong that you have no alternative but compromising, sometimes they are in some way neutralized. Yet, although ponderous, interests leave some room for decision-making. In certain cases the interests involved are not clear, in other interest groups' opposite claims make them weak, in others, the administrations' political legitimacy is strong enough or politicians are brave enough to confront interests and decide according to their own convictions. In all these cases interests are neutralized and policymakers are free to decide.

Some Questions

Policy mistakes are quite usual, particularly in the developing countries. The less developed the country, the less cohesive its civil society, the poorer and less democratic the state institutions, the more likely will be that government will be incompetent or dominated by interests. Yet, when I first formally exposed these ideas to groups of political economists, in the last quarter of 1999, two major and related questions were posed: competence is a systematic factor? Why policymakers do not learn from previous mistakes?[7]

The answer to the first question is yes, with a caveat. Yes because the increased power policymakers acquired in twentieth century represented, as I already argued, a historical new fact, which made economic outcomes more dependent of policy decisions. With a caveat, because policymakers are supposed to learn from their mistakes.

Yet, in developing countries it is more usual to see mistakes been repeated than in the developed ones. Why? Because there is a strong correlation between the level of economic development and the quality of governments and of governance; because faltering cohesiveness in civil societies lead to wide divergences on how to confront the countries' problems; because the lack of common ground and the absence of a public

[7] - I debated this paper in several places, particularly with friends in Oxford (where I was a visiting fellow at Nuffield College and the Centre for Brazilian Studies), and New York University.

space with defined rules of the game make public debate difficult; because each political group believes that their proposals are the only ones that will "save" the country; because disqualification of adversaries is a constant in politics. In other words, because real public debate is limited if not non-existing. Or, public debate, where contenders debate issues instead of disqualifying each other, is a condition for learning from mistakes.

A third question was also posed: who will define which policies are competent and which are not? This question is relevant on the standpoint of controlling outcomes; it is not while we are just analyzing reality. The same question could be made in relation to interests: who will judge which interests are detrimental to the common good? I may have my own assessment of which have been the major policy mistakes in Brazil, but they are just my opinion. Democratic regimes exist not only to assure freedom, but also to create room for issues to be discussed, and for some consensus to be achieved. Democracy and public debate will result in learning from mistakes and in greater ability to resist to interests. But competence and interest will remain the two major factors determining together economic and social outcomes.

Conclusion

In conclusion, economic outcomes are dependent not only of interests involved but also of the competence of policymakers. The more the state is effective in influencing outcomes, the more outcomes will depend on competent decision-making. Interests and competence determine most economic outcomes jointly, and it is not easy to distinguish one factor from the other, but this does not justify disregarding the second. Governments have a job to do to, and they are supposed to do it well.

In other words, we know for long that good state, i.e., good institutions matter. What I am just adding is that good governments, good administrations also matters. Classical liberalism's hypothesis on the good state does not hold anymore. We cannot expect that good state institutions will lead automatically to good government. The problems that governments face today are so complex and change so fast that, even when institutions are well thought and well defined, nations will depend on good governments, i.e., on competent politicians and officials endowed with republican virtues, or with the Machiavellian *virtù*. And more: good governments, good politicians and officials depend not only on good institutions, but also on a good civil society, where a public space is present, where public debate is real.

This last reasoning leads me to an optimistic conclusion. Policy mistakes will tend to be less damaging in the future for two reasons: because policymakers are increasingly better educated, and because they live in countries increasingly more democratic. The twentieth century was the first time in history that democracy became the generally preferred and the dominant political regime. Developed countries are all democracies, and an increasing number of developing countries already turned or are turning democratic. Or, with democracy public debate turns real, and learning from mistakes becomes more effective. Yet, as problems that policymakers face everyday are increasingly complex and change all the time, besides neutralizing interests, increasing competence in decision-making will remain a major question for governments in developing and developed countries.

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