

8. State reform in the 1990s: logic and control mechanisms

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The great political task of the 1990s is to reform or to rebuild the state. Between the 1930s and 1960s, the state became a significant factor in fostering economic and social development. During that period, and particularly after World War II, we witnessed a time of economic prosperity and an increase in standards of living as never before in the history of mankind. Yet, since the 1970s, because of its distorted growth coupled with the globalization process, the state entered into a crisis and became the main cause for the drop in economic growth rates and the increase in unemployment and inflation rates that have taken place throughout the world. A neo-conservative wave and market-oriented economic reforms were respectively the ideological and political responses to the crisis – reforms which neo-liberals or neo-conservative politicians and intellectuals hoped would reduce the size of the state to a minimum. But in the 1990s, when the neo-conservative proposal of a minimum state proved not to be feasible, the true nature of the reforms was disclosed: the rebuilding of the state was essential for it to undertake not just its classical tasks of assuring property rights and contracts, but also those required to ensure social rights and promote competitiveness in the country.

State reform involves four issues which, although interdependent, may be distinguished as follows: (a) an economic-political problem concerning the size of the state or the delimitation of the areas the state is supposed to actuate; (b) a deregulation question where the degree of state regulation is discussed; (c) an economic-administrative aspect regarding the recovery of governance, i.e. the financial and administrative capacity to implement political decisions taken by the government; and (d) a political issue – the governability problem – i.e. the political capacity of the government to represent and to be an intermediary between different interest groups so as to guarantee legitimacy and political power for the administration's decisions.

In defining the size of the state, three issues gain relevance: privatization of

state enterprises, 'publicization' of social and scientific services and outsourcing of support activities. While the delimitation of the size of the state may follow some clear principles that I will try to present in this paper, the deregulation problem is a question of the degree to which the state, that always regulates through the legal system, will regulate a given industry, depending on its degree of monopoly. With respect to governance, several aspects are involved: a financial aspect, overcoming the fiscal crisis; a strategic one, redefining the ways in which the state will intervene in the economic and social spheres; and an administrative one, involving the substitution of a managerial for a bureaucratic kind of public administration, while the bureaucracy itself is strengthened and acquires a relative autonomy from politicians and pressures from its clientele. Finally, governability – the enhanced capacity of the state to govern – covers the following issues: the legitimacy of the administration *vis-à-vis* society, and before that, finding ways to put in place political institutions that promote representation, stimulate social control and serve as intermediaries among diverse interests.

In this paper I shall attempt to analyse the four basic aspects of state rebuilding: setting limits to its institutional scope together with the downsizing processes, establishing a proper framework for its role as a regulator coupled with the deregulation processes, increasing its capacity for governance and enhancing its governability. In all four cases, the objective is not to weaken the state, but rather to strengthen it. At all times it will be assumed that the regime is democratic, not just because democracy is an end value in itself, but also because at the current stage of civilization it is the only system that assures political stability and sustainable economic development. I shall not go into this issue, nor why the crisis of the state arose, and I shall make just a brief reference to the theoretical discussion on market coordination constraints which make it imperative for the state to intervene in a complementary role.

The key issue of this article is the state reform process which was under way in the 1990s, and its practical and theoretical foundations. The analysis will be centred on this reform and on the institutions that stem from it. Behind it, there is a logic of economic and social control, that I will discuss later in this paper. I shall start out from the premise that the state is an essential factor in promoting development, which is something that pragmatists of all ideological orientations uphold. This role may be performed by deliberately enhancing investment combined with substantial expenditure in the social sector, as is the proposal of the social-democratic or social-liberal left; or by limiting the state to guaranteeing property rights and contracts, as the new neo-liberal right desires.

I shall basically use the historical method, which is more appropriate when it undertakes an analysis of macroeconomic and political problems. I shall not examine the crisis of the state and the ongoing reforms in abstract; instead I

shall consider the reality of the second half of the 1990s. However, logical-deductive and rather abstract tools will be used whenever they are useful for the analysis. In this manner I shall develop a few models: distinguishing between the activities that belong exclusively to the state and the social and scientific services that the state provides; defining public non-state (or non-profit) property as different from state property and private property; defining the concepts of the new institutions that will characterize the new state that is emerging in the twenty-first century; and identifying a range of controls prevailing in contemporary capitalism, involving legal, market, democratic and administrative controls – the logic behind this range of controls sets the basis for the choice of institutions through which the state must act.

CRISIS AND REFORM

The Great Economic Crisis of the 1980s reduced the growth rate of the developed countries to half compared with what it had been in the twenty years following World War II, caused the per capita income of developing countries to remain stagnant for fifteen years and led to the collapse of centralized state regimes of the Soviet type. When I say that this Great Crisis had as its basic cause the crisis of the state – a fiscal crisis of the state, a crisis of the mode of state intervention and a crisis of the bureaucratic way in which the state is managed – the assumption is that the state has an essential role regarding economic coordination, apart from ensuring internal order, monetary stability and the normal operation of markets.¹ Or, in other words, it is implicit that the coordination of the economic system in contemporary capitalism is not only carried out by the market – as conservative neo-liberalism wishes² – but also by the state. The market coordinates the economy through exchanges, the state through transferences to those sectors that the market is unable to remunerate adequately (in the political judgement of society). Thus, whenever there is a significant crisis, its origin must be sought either in the market or in the state. The Great Depression of the 1930s stemmed from a malfunction of the market, while the Great Crisis of the 1980s arose due to the collapse of the social-bureaucratic state that characterized the twentieth century.

The market is the mechanism ‘par excellence’ for resource allocation, but even in this task its action is limited since there is monopoly power and positive or negative externalities. The modern state, in turn, came into being before the capitalist market, just as Hobbes and his social contract, which legitimated the state, preceded Adam Smith and the principle that, if each one defends his own interests, the collective interest will be assured through market competition.

The modern state comes before the capitalist market because it guarantees property rights and contracts, but it is contemporary and concurrent with markets, because it performs an essential role in directing income distribution, by concentrating it in the hands of the capitalists in periods of primitive accumulation, or by distributing it among the poorest, so as to render viable the emergence of civilized and modern societies, that, apart from being wealthy are supposed to be reasonably fair.

The Great Depression of the 1930s came about from market failures. Keynes explained this with his theory of chronic insufficiency of demand. With the depression, the liberal state collapsed, giving way to the social-bureaucratic state: 'social' because the state assumed the role of guaranteeing social rights and full employment; and 'bureaucratic', because it did that through the direct hiring of bureaucrats. Now, besides judges, tax collectors, policemen and military, the state hired professors, doctors and even artists. The welfare state then emerged in the developed countries, while in the developing countries the state assumed the form of the developmentalist state, actively promoting industrialization through protectionist strategies, and in Russia, China and their satellites, it assumed the form of the Communist state, which attempted to replace the market instead of complementing it.

This last distortion, which reached its peak in the Soviet Union, arose from an overestimation of the role of the bureaucratic middle class in managing contemporary economic systems. In the twentieth century, with the appearance of multinational corporations and the modern state, capitalism was no longer the product of an alliance between the emerging bourgeoisie and the aristocracy – this was the liberal state of the nineteenth century – but the outcome of a new alliance between capital owners and an expanding bureaucratic middle class. This technobureaucracy or new middle class held the monopoly of technical and organizational knowledge – a knowledge that turned increasingly strategic as technological development gained momentum all over the world.³ Yet it disproved the bureaucratic or statist assumption that it would be feasible to substitute managers for business entrepreneurs, organization for capital or bureaucratic planning for markets. Managers, organization and planning gained space, but never to the point of replacing markets. Instead, what became clear was the need to combine or complement the market and the state, capital and organization, entrepreneurs and (public or private) managers, given the essential roles that these institutions and actors performed in the operation of modern and complex economic systems, and in the consolidation of democratic regimes.

The great thrust of technological development in the second half of this century led the world economic system to deep transformation. With the dramatic drop in transportation and communication costs, the world economy became

global, i.e. far more integrated and competitive. Consequently, the nation-states lost autonomy, and the developmentalist economic policies which require relatively closed and autarchic countries, were no longer effective. Soon afterwards it was increasingly clearer that the state intervention strategy could no longer be protection against competition, but would have to become a policy deliberately aimed at stimulating and preparing private enterprises and the country as a whole for international competition. The state and the market would no longer be seen as polarized alternatives but as complementary economic coordination factors.

The world economy faced another great crisis starting in the 1970s and coming to a peak in the 1980s. This was partly due to an inability to recognize and cope with the new technological realities; partly due to a mistaken view of the role of the state as a direct provider of social services; and partly because, as the state grew, fiscal and administrative distortions stemming from rent-seeking became unavoidable, mostly because capitalist development was essentially subject to cycles or waves of prosperity and slow-down. In the first world, growth rates were half of what they used to be in the first two decades after World War II, while unemployment rates rose, principally in Europe, and even the Japanese miracle that was booming in the 1980s was stumbling in the 1990s.⁴ In Latin America and East Europe, which refused to engage in a fiscal adjustment in the 1970s, the crisis broke out in the 1980s and was far more violent.

This crisis, however, is no longer the result of the chronic shortage of demand mentioned by Keynes; it is not therefore a market crisis, as was the case in the 1920s and 1930s. Even less can it be attributed to the greater momentum of technological progress, which might cause temporary unemployment, but is in fact the source of growth, not of its failure. The main cause behind the Great Crisis of the 1980s was rather the crisis of the social-bureaucratic state, that stopped being a factor favouring development and began to hinder it, as it grew too much and lost functionality. Only East and Southeast Asia escaped from the economic crisis, precisely because they managed to avoid the crisis of the state. But even there, in the 1990s, economies such as Japan and Korea already showed signs of exhaustion of the state-led development strategy.

The crisis of the state I refer to is not a vague concept. On the contrary, it has a very specific meaning. The state enters into a fiscal crisis as it loses public credit to a greater or lesser degree, and, at the same time, its capacity to generate savings diminishes or even disappears, as public savings, which used to be positive, become negative. Consequently, the capacity for state intervention drops dramatically. The state is rendered paralysed. Added to the fiscal crisis were crises of the mode of state intervention – particularly the direct provision of social services by the state – and of the bureaucratic way of managing government,

making the state expensive in a world where globalization and international competition became the rule. Here we have the origins of the slowdown in growth rates, the new surge of unemployment and the increasing concentration of income. The crisis of the state is associated, on the one hand, with the cyclical nature of state intervention, and on the other, with the globalization process that reduced the autonomy of nation-states in defining social and economic policies, particularly in protecting their firms and citizens from foreign competition.

The crisis of the 1930s was a crisis of the market – of a market that was not able to assure employment and an even distribution of income. Hence, when Keynesian macroeconomic policies and ideas in favour of planning appeared in the 1930s they were immediately adopted, and led to a considerable improvement in the performance of the national economies. In the 1950s, the idea of a state that had a strategic role in promoting technical progress and capital accumulation was commonplace, together with the idea that it was responsible for ensuring a reasonable income distribution. However, these successes led to an explosive growth of the state not only in the field of regulation, but also in the social and productive spheres. In order to do this the tax burden, which accounted for 5–10 per cent of GDP at the beginning of the century, increased to 30–60 per cent, the number of civil servants whose tasks had nothing to do with the classic roles of the state increased substantially, and the number and size of state-owned enterprises were multiplied many times. The state became a social-bureaucratic state insofar as it directly hired civil servants such as teachers, doctors, nurses, social workers, artists, engineers, scientists, etc. with the purpose of promoting social welfare, technical and scientific growth and economic development.

As is usually the case when a system or an organization grows, distortions soon started to emerge.⁵ State transferences were diverted to meet the needs of special interests of businessmen, the middle-class groups and public bureaucrats. Rent-seeking became increasingly widespread, as economic agents tried to capture the *res publica*. State-owned enterprises, which at first had been a powerful mechanism for achieving forced savings, to the extent that they had monopolistic profits and invested them, soon saw this role begin to wane; at the same time, their performance proved to be inefficient, as they were increasingly subject to bureaucratic control patterns. Bureaucratic public administration, which had proved effective in fighting corruption and nepotism in the small liberal state, now showed themselves highly inefficient in directly providing the large social and scientific services. Classical bureaucracy was fitted to perform the exclusive activities of the state, comprising economic, social and scientific policies, but proved to be inefficient in providing the services that the citizen-customers started to demand in the twentieth century. The ensu-

ing crisis led governments all over the world to substitute a managerial public administration for the bureaucratic one.⁶

Anyway, whether it was due to the capture of the state by private interests, the inefficiency of its administration or the imbalance between the demands of the population and its capacity to meet them, the state came to a crisis; this first, in the early 1980s, took the form of a fiscal crisis and specifically a foreign indebtedness crisis. As public savings become negative, the state lost financial autonomy and was rendered immobile. Consequently, its managerial limitations arose more clearly. The crisis of governance, which in extreme cases took on the form of hyperinflationary episodes, became all-embracing: the state was no longer an agent of development, but an obstacle to it.

On the other hand, another factor that exerted additional pressure in favour of state reform was the globalization process. It was a gradual quantitative shift that in the end became a major qualitative shift. Arising from a considerable drop in the costs of international transportation and communications, globalization led to a huge increase in world trade, international financing and direct investments by multinational corporations. It also meant a rise in international competition to undreamed-of levels, and a reorganization of production at world-wide level sponsored by the multinational corporations. The market gained much more space at a world-wide level and transformed international competitiveness into a condition determining the survival of the economic development of each country. The consequences were, as is always the case when the market prevails, a better resource allocation and an increased productive efficiency. On the other hand, there was a relative loss of autonomy by the state; its ability to protect the economy from international competition also waned. Since markets always act in favour of the strongest, the most capable, income concentration was greater than before, both among countries and among citizens of a single country. Among countries because the more efficient ones were in a better position to impose their interests over the less efficient, and among the citizens of each country because, with the surge of technical progress, the demand for the most efficient and better educated rose more rapidly than for the less-educated. If we take only the workers in poor and rich countries, the advantage was for the former: since their wages were considerably lower, developing countries' exports to developed countries soared, thus depressing the wages of the less skilled workers from the developed countries. Thus, globalization exerted a twofold pressure over the state. On the one hand it represented a new challenge – the role of the state was to protect its citizens, and this protection was now jeopardized, although it continued to be dramatically required; on the other hand, it demanded that the state – which had to be stronger in order to tackle the challenge – also had to be cheaper, carrying out

its tasks more efficiently so as to reduce the costs of its private enterprises that had to compete internationally.

The crisis in the state broke out because it was often captured by private interests when it grew too much, and also because of the globalization process that reduced its autonomy. The fiscal crisis was defined by a greater degree of public borrowing and by the growing inability of the state to achieve positive public savings that would have enabled it to finance public policies. The crisis in the way the state intervened was apparent in three forms: the crisis of the welfare state in the rich economies, the exhaustion of import substitution industrialization in most developing countries and the collapse of the centralized state in the Communist countries. The inefficiency of the state bureaucratic manner was revealed in the high costs and low quality of the services provided.

As the crisis was universal, the responses to it also had the same character, given the swift dissemination of ideas and public policies that the new communication systems permitted,⁷ but it varied according to the ideological affiliation of each group. In order to describe these responses, I reduced the number of the groups or social actors to four – the archaic (or populist) left, the social-democratic and pragmatic centre-left, the pragmatic centre-right (or the establishment), and the neo-conservative or neo-liberal right; this will enable me to tell a brief and stylized story.

Given the crisis, the archaic and populist left – formed by those who did not accept that the national-developmental approach was something of the past – went into a crisis and was paralysed, ceasing to have real proposals to deal with the new problems. It could not have happened otherwise, since its diagnosis of the crisis was erroneous, believing that it was caused by foreign interests: by imperialism in the past, and now by globalization. The pragmatic centre-right – formed by the business, political and bureaucratic establishments – decided, out of Washington and New York, that the countries that were heavily in debt had, first (1982), to follow macroeconomic fundamentals advancing fiscal adjustment, price liberalization and exchange devaluation so as to reduce the current account deficits; and, second (1985, with the Baker Plan), to engage in market-oriented reforms (trade liberalization, privatization, deregulation) to be politically supported by specific compensatory social policies.

The neo-conservative right, which had hopelessly criticized the growth of the state since the 1930s, now gained adepts and adopted a triumphant attitude, as it assumed that a firm alliance had been established with the pragmatic centre-right. It considered that market-oriented reforms would automatically bring about economic development, as long as markets recovered full control of the economy, individuals stopped being monitored or protected by the state, and the minimum state was turned into reality. Now it was necessary to privatize, liberal-

ize and deregulate industries and labour markets; the state would divest itself of all interventionist roles in the economic and social spheres and limit itself to assuring macroeconomic fundamentals, property rights and contracts. Macroeconomic policy should be neutral, the only goals being to achieve zero public deficit and a steady growth of money supply consistent with the GDP growth rate. Industrial policy was ruled out, and so was social policy in the purest version of the neo-conservative credo, given its unexpected and perverse effects.⁸

In the meantime, the pragmatic centre-left, making a transition from a social-democratic to a social-liberal approach, defined the Great Crisis as a crisis of the state, affirmed the need to obey the macroeconomics fundamentals – i.e. fiscal adjustment, tight monetary policies, right market prices, positive interest rates and realistic exchange rates – and supported the market-oriented reforms. But this support did not mean the acceptance of a self-regulating market according to neoclassical general equilibrium theory and ideology, since free markets ensure neither economic development nor social justice. It thus affirmed that market-oriented reforms were in fact needed, but not in the radical form sustained by the neo-conservatives; they were necessary to correct the distortions caused by the excessive growth of the state and to eliminate arbitrary interference in defining relative prices. But to return to the liberal state of the nineteenth century was definitely infeasible. Instead of reducing the state to a minimum, the social-liberal centre-left proposed reforming or more precisely rebuilding the state, giving it governance and governability, so as to enable it – in a new cycle – to once again effectively complement and correct market failures. Rebuilding the state meant recovering public savings; overcoming the fiscal crisis; redefining the ways in which it intervened in the economic and social sphere; substituting a managerial for a bureaucratic public administration; and contracting out non-profit, public non-state organizations to competitively provide education, health care and cultural services. It meant making a transition from a state that directly carried out social services, and even the production of goods and services through state-owned enterprises, to a state that acted as a regulator, facilitator or provider of funds to foster economic and social development through non-profit organizations.⁹

In the mid-1990s, the pragmatic centre-right and, in a broader sense, the international élites, after a brief hesitation, perceived that the neo-conservative approach was neither economically nor politically feasible. The way was open for a political concentration between the centre-left and the establishment on the basis of the above line of action. The thesis of reforming or rebuilding the state turned into an important issue. The World Bank and the Inter-American Development Bank gave priority to loans for state reform. The United Nations promoted a 'resumed general assembly' and there were many meetings on pub-

lic administration and the reform of the state. Many countries set up ministries or high-level committees in charge of state reform. The 1997 *World Development Report* was originally entitled *Rebuilding the State*.¹⁰ The reform of the state was then the motto of the 1990s, replacing that of the 1980s, which was structural adjustment.

A broad coalition between the centre-left and the centre-right was thus established or re-established. A coalition that led governments in Latin America, Eastern Europe and a large number of developing countries in Asia, apart from the developed countries, to promote state reform in order to make the state smaller and more specifically geared to the activities that belonged to it. This involved raising state capability and making it politically, fiscally and administratively stronger, i.e. empowered with governability and governance, and hence able to promote education and health, technological and scientific development. Instead of simply protecting the national economy, the state is now supposed to assist it in becoming more competitive internationally.

In this way, the state of the twenty-first century began to take shape. It will certainly not be the social-bureaucratic state, since that was that state which went into crisis. It will not be the neo-liberal state dreamt of by the neo-conservatives, since there is no political support nor economic rationale for a return to the liberal state of the nineteenth century. My prediction is that the state of the twenty-first century will be a social-liberal state. It will be social because it will continue to protect social rights and promote economic development. It will be liberal because it will do so using more market and less administrative controls; it will carry out its social and scientific services mainly through competitive public non-state organizations; it will make labour markets more flexible; and it will promote human capital and technological development so as to allow its business enterprises to be more innovative and internationally competitive.¹¹

Summing up, I see four basic components of the state reform which took place in the 1990s, that will transfer to the social-liberal state of the twenty-first century:

1. Setting more precisely the limits of state action, by reducing its size; privatizing state-owned enterprises; giving autonomy and transferring to the non-profit sector the social and scientific services while keeping its financing within the state; outsourcing non-core or auxiliary activities.
2. Reducing the extent to which the state regulates the private sector, transforming the state into a promoter of the competitive capacity of the country instead of a protector of the national economy against international competition.
3. Increasing state governance, i.e. its capacity to make government decisions effective, by means of a fiscal adjustment that refunds financial capacity to

the state, and of administrative reform aimed at a managerial public administration (instead of a bureaucratic one).

4. Increasing governability – i.e. the power to govern – through political institutions that ensure a better intermediation of interests and make governments more legitimate and democratic, thus improving representative democracy and opening spaces for social control or direct democracy.

Another way to conceive the current state reforms that are taking place is to understand them as a process of the creation or transformation of institutions with the purpose of increasing governability and governance. In this sense, privatization aims to transform state-owned enterprises into private ones; 'publicization' means transforming state entities into non-profit institutions; and outsourcing is a process through which auxiliary and support services are purchased from the private sector instead of being directly provided by the state. In all these cases we have the creation or transformation of institutions. Within the state *stricto sensu*, where the exclusive activities of the state are carried out, it is possible to distinguish three types of institutions: policy-making departments, executive agencies and autonomous regulatory agencies. Besides these new institutions, understood in the restricted sense of organizational institutions (this is especially true for the institutions devoted to social control), we have in the reform of the state new legal institutions: electoral legislation, reform of political parties, political finance regulation and the increasing involvement of civil society in political decision making.

In a more abstract manner, it is possible to consider state reform on the basis of the principal-agent model, as a strategy of creating incentives and punishments for politicians so that the will of the voters is reflected in the administration. According to this model, in its simplified form, voters would be the principals, the elected politicians their agents and these, in turn, would be the principals of the bureaucrats or civil servants.¹² The main task of the reform would be the creation or the reform of institutions in such a way that the incentives and penalties make the state more democratic and efficient, and the politicians and the bureaucrats more accountable. At this level of abstraction, I find no fault in this approach. Ultimately, it codifies the obvious. However, when authors adopting the rational choice approach, assume that politicians are only motivated by rent seeking and the will to be re-elected, excluding public interest as a third motivation, the model's explanatory capability is lessened. In the same line, when the motivation of civil servants is reduced to rent seeking and the will to be in office, excluding the achievement motivation and the will to promote the public interest, the meaning of the reforms towards a 'new public administration' or a managerial public administration becomes incomprehen-

sible. The radically pessimist view of human nature involved only allows the existence of the classical bureaucratic model, where controls are strict, step by step, and confidence, null.

In the next sections I shall examine these four basic components of state reform: (a) the delimitation of the role of the state that is taking place by means of privatization, 'publicization' and outsourcing; (b) the deregulation process, that involves a question of degree of state intervention, not of delimitation of scope; (c) the effort for increased governance; and (d) the struggle for enhanced governability. Additionally, I will discuss the logic underlying state reform – a reform that involves downsizing, diminished intervention in economic activities, rise in fiscal and administrative capability, and greater political legitimacy within a democratic regime that gradually tends to be more direct, more subject to social control. In so doing I shall concurrently be analysing the main institutions which are at the core of state reform in the 1990s.

LIMITS TO THE STATE DIRECT SPHERE OF ACTION

Reform of the state is often seen as a downsizing process, as its role is redefined. Keeping in view its excessive growth in this century, the high hopes that the socialists had for it, and the distortions that it finally underwent, this perspective is essentially accurate. The state grew in terms of staff and mainly in terms of income and expenditure. In many countries, civil servants (excluding those who work for state-owned enterprises) account today for 10 to 20 per cent of the workforce, when, at the beginning of this century, the corresponding figure was around 5 per cent. State expenditure, in turn, was multiplied by three or four in this century: in the last thirty years the figure doubled and now stands between 30 and 60 per cent of GDP.¹³ This growth took place at the same time as the role of the state was enlarged, mainly in the social sphere.¹⁴

The ratio between the number of civil servants and the economically active workforce is invariably smaller than the relationship between the tax burden and GDP. This in part stems from the fact that civil servants are more skilled and consequently their average salaries are higher than those paid to workers in the private sector, but the main reason is that the state is increasingly financing instead of directly executing social services, and thus requiring fewer civil servants. At the beginning of the twentieth century the state was directly responsible for construction works, support services and social services. But after some time it became clear that outsourcing engineering services, support services and finally, social services, was more efficient. The state reform that took

place in the 1990s started from this general vision, that required, above all, defining the role of the state, determining its exclusive tasks, and leaving the private sector or the public non-state sector to execute those activities that do not involve state power.

In order to define clearly the limits or the realm of state direct action it is necessary to start out from the concept of the state and to distinguish three areas of activity that we may find there: (a) exclusive state activities; (b) social and scientific services provided by the state; and (c) the production of goods and services for the market. It is convenient to distinguish, in each of these areas, the core activities from the auxiliary or support ones. Figure 8.1 summarizes these distinctions in a simple matrix. The columns show Exclusive State Activities, Social and Scientific Services and Production of Goods and Services for the Market.

The definition of exclusive state activities comes from the definition of the state. It is the political organization that holds 'extroverse power' over the civil society existing in a given territory. Private organizations and public non-state entities only hold power over their employees, whereas the state has power outside itself: the power of making and imposing law, of taxing and of transferring funds from tax payers. The state holds this power in order to assure domestic order – i.e. to guarantee property rights and contracts, to defend the country against a foreign enemy and to promote economic and social development. In this latter role, the state can be viewed in economic terms as a bureaucratic organization which, through transferences, complements the market in coordinating the economy. Whereas markets operate through the exchange of equivalents, the state does so through transferences financed from taxes.

The state is a monopolistic entity by definition. It was for no other reason that Weber defined it as an organization that holds the legitimate monopoly of violence. Exclusive activities of the state are thus monopolistic activities, in which the power of the state is exerted: the power to make and enforce the laws of the country, to impose justice, to maintain order, to defend the country, to represent it overseas and to collect taxes, to regulate economic activities. These activities are monopolistic because they do not allow for competition. Imagine for instance, a state appointing two ambassadors to represent it in a single country in order to see which one does better... Or allowing two judges to hear a single case concomitantly... Or to give two tax collectors the task of competitively inspecting the same taxpayer... These hypotheses obviously make no sense.

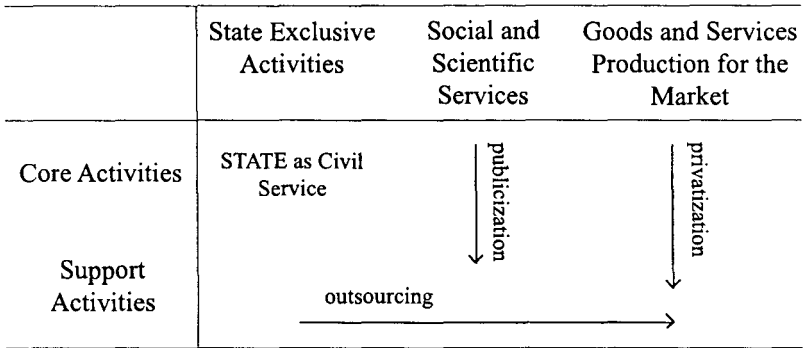


Figure 8.1: Setting the Limits for the Sphere of Action of the State

Nonetheless, apart from these activities, which are characteristic of the classical liberal state, there is a series of other activities that pertain exclusively to the state. In essence they are the activities required for policy making in the economic, social and scientific spheres, and for implementing these policies through transferences of funds for education, arts, health care, basic social security and unemployment benefits, besides the enforcement of laws protecting the environment and the cultural heritage. Not all these activities are intrinsically monopolistic or exclusive, but in practice, in view of the large transference of state resources they involve, they are actually exclusive state activities. There is a whole range of reasons for the state to subsidize these activities, but they fall outside the scope of this paper. The main economic argument that justifies them is that these activities, as they involve significant positive externalities, are not properly remunerated by the market.¹⁵ The ethical argument is that they are activities that involve direct fundamental human rights that every society must guarantee for its citizens.

And we also have exclusive state economic activities. The first and foremost of these is to guarantee currency stability. For this purpose, the creation of central banks in this century was fundamental. To assure the stability of the financial system is another strategic activity that falls exclusively upon the state. Regulating monopolistic activities and promoting competition is another one. Investments in infrastructure and in public services are not, rigorously speaking, exclusive state activities as they can be subject to concession to the private sector, but the final responsibility for them belongs to the concessionaire authority.

In state reform, exclusive state activities should remain within the state. Among them we can distinguish the strategic core, where strategic decisions are taken by the parliament, the main tribunals, the president or prime ministers and

the ministers, supported by the policy-making secretariats from the executive agencies and regulatory agencies. These institutions will be dealt with in the section concerning governance and the new or managerial public administration.

At the other extreme, as shown in Figure 8.1, we have the production of goods and services for the market. This is an activity which, except for the ephemeral Soviet-type central state system, has always been dominated by private enterprises. Nonetheless, in the twentieth century, the state intervened strongly in this area, mainly in the monopolistic public utilities subject to concession, and in the infrastructure, steel and mining industries, where there were large economies of scale. The basic reasons why the state intervened in this area were practical rather than ideological. They were twofold: the state invested in sectors in which investments were too heavy for the private sector to undertake; and it invested in monopolistic sectors that could turn out to be self-financing because of the extraordinary profits they could yield.¹⁶ The assumption behind the former reason was that the state was able to achieve public savings. When a fiscal crisis of the state broke out, this ceased to be true, and an opposite movement started: privatization. Besides usually being more efficiently run, private enterprises and private capitalists were able to make savings where the state was unable to do so. Since the state was undergoing a fiscal crisis, it was unable to invest, and depended on the resources coming from privatization to reduce its heavy indebtedness. On the other hand it was quite clear that it was not convenient for the state to engage in entrepreneurial business, since it was something that the market could manage better, more efficiently. Apart from the fact that state control is less efficient than market control, private management tends to be more efficient than state management, that is permanently threatened by unacceptable political interests. Another problem is related to objectives: while corporations are supposed to be competitive and make a profit, the state – and the state-owned enterprises – were often required to engage in social policy. For a long time the issues of privatization and nationalization were the subject of a broad ideological debate. Nowadays, this debate no longer exists; there is a quasi-consensus on whether it is necessary to privatize – given the fiscal crisis – or convenient to privatize – given the greater efficiency of the privatized enterprises. The only industries where a legitimate doubt exists about privatization are the natural monopolies. In this case privatization can only be undertaken if autonomous regulating agencies are set up, capable of artificially setting the prices as if competitive markets existed.

Halfway between exclusive state activities and the production of goods and services for the market, there is today, within the state, a series of activities in the social and scientific field that are not exclusive since they are not intrinsically monopolistic and do not involve state power. Included in this category are

the schools, universities, scientific and technological research centres, day-care centres for infants, outpatient clinics, hospitals, entities that provide assistance to the needy – mainly children and the elderly – museums, symphony orchestras, art workshops, educational or cultural radio broadcasting stations and television networks, etc. Although the financing of some of these activities are clearly appropriate for the state – it would be very difficult to ensure free universal basic education or universal health care relying only on public charity – and should be included in exclusive state activities, the execution of these services is not in the same situation. Quite the contrary, these are competitive activities that can be financed by the state, and controlled through the use of a managerial public administration, the setting up of quasi-markets, and social control mechanisms.

In this regard, these activities do not have to remain within the state nor be state monopolies, but they do not have to be private – i.e. geared towards profit-making or private consumption – either, since they are often strongly subsidized by the state and the object of private donations. For this reason, the reform of the state in this field does not involve privatization but rather ‘publicization’ – i.e. its transference to the public non-state sector.¹⁷ The assumption behind this is that there is a third form of property which is relevant in contemporary capitalism: public non-state property. In everyday language only two forms of property are mentioned: public property, seen as synonymous with state property, and private property. This simplification, which has its origin in the dual nature of law – public or private law – leads people to refer to entities whose nature is essentially public, not profit-making, as ‘private’.¹⁸ However, if we define as ‘public’ the organization and property which address the general interest, and as ‘private’ those which address the interests of individuals and their families, it is clear that the public sphere is not restricted to the state, and that non-profit organizations, which additionally are not geared to the defence of corporate interests (a fourth relevant form of property), but to the general interest, cannot be considered private. The Ford Foundation or the Santa Casa da Misericórdia in São Paulo are not private entities, they are public. But, since they are not subordinated to the government and do not have civil servants on their staff, they are not part of the state. Actually, they are public non-state entities (sometimes known as: third sector entities, non-profit entities, non-governmental organizations, volunteer organizations).

The public sphere is broader than the sphere of the state. In theory, whatever belongs to the sphere of the state is always public, but in practice that is not the case: the pre-capitalistic state was, ultimately, private, since it existed to attend to the needs of a prince; in today’s world what is public used to be conceptually separated from what was private, but every day we see attempts at private ap-

appropriation of the state. The sphere that belongs to everybody and is for everybody is the public one. A specific form of that space or of the public property is that of the state. The property that is meant for profit-making or for consumption by individuals or groups is private. A foundation, even though ruled by civil law and not by administrative law, is a public institution insofar as it attends to the general interest. In principle all non-profit organizations are or should be non-state organizations.¹⁹ It could be said, in short, that there are still two kinds of property: public and private. However, there are two important distinctions: first, public property is subdivided into state and non-state to avoid confusion with the state sphere in itself; and second, private law institutions addressed to the public interest and not aimed at private consumption are not private, but merely public non-state entities.

The acknowledgement of a public non-state sphere became especially significant when the crisis of the state deepened the dichotomy of the state-private sector, leading many people to imagine that the only alternative was either state property or private property. Privatization is a suitable alternative when an institution has the power to manage all its income from the sale of products and services, and the market is in a position to take over the coordination of its activities. Whenever this is not the case, it is possible for it to operate in the public non-state sphere. On the other hand, whenever the crisis of the state demands a review of the relationships between the state and society, the public non-state sphere may have an intermediation role or may facilitate the appearance of direct control by society and of partnerships, which open up new prospects for democracy. As Cunill Grau observes (1995, pp. 31–32):

The introduction of 'public' as a third dimension, that overcomes the dichotomic point of view that confronts in an absolute manner what pertains to the state and what is private, is unquestionably linked to the need to redefine the relations between the state and society ... What is public, 'in the state' is not in itself a definite piece of information, but rather a construction process, that in turn supposes the activation of the social public sphere in its task of influencing state decisions.

Manuel Castells declared at a seminar in Brazil (1994) that NGOs are quasi-public institutions, which is true, since they are halfway between the state and society. Public non-state organizations carry out public activities and are directly controlled by society through their administrative boards. There are, however, other forms of direct control by society and these can also be defined as belonging to the public non-state sphere. In Brazil, an interesting experience which started in Porto Alegre was that of participative budgets, by which citizens could be directly involved in the preparation of the municipal budget.²⁰

According to Tarso Genro (1996), non-state organizations made it possible for society to find an alternative to privatization. This could be the proper modality of property if a company is in a position to be self-financing in the market. However, whenever the funding for a given activity relies on donations or transferences from the state, this would mean that it is a public activity, and if this activity does not need to be part of the state, it could therefore be performed by a public non-state entity under the control of society itself, which actually finances it and directs it. Then, in a situation in which the market is clearly incapable of undertaking a series of jobs and the state is not flexible or efficient enough to carry them out, there is a place for them to be done by public non-state organizations.²¹

In the second half of the twentieth century, the growth of public non-state entities boomed. Sometimes these organizations were mixed with a fourth type of property pertaining to contemporary capitalism – ‘corporatist property’ which is characteristic of trade unions, peer associations and clubs.²² This is only legitimate in the case of grassroots associations that simultaneously represent group interests and undertake community services oriented to the general interest. The growth of entities that represent special or group interests has been considerable in this century, and, as Putnam demonstrated (1993), this growth is an essential factor for the strengthening of civil society and the economic development of the region or country where it occurs; however, the growth of public non-state entities aiming at social control and/or at the production of social services has been just as significant or more so, although not as much studied. This growth was brought about by the greater effectiveness – and hence greater efficiency – shown by this kind of institution in performing social services. These services, which are not naturally monopolistic, can benefit from competition and from the support of society and the state. Since they are directly addressed to the population, they can be effectively controlled by the citizens through social control mechanisms.²³

The process that led to the expansion of the public non-state sector has two origins: on the one hand, society itself, that continuously creates entities of that nature to perform social control or the production of social services; and on the other, the state, which, in the process of reform, engages in the publicization process of its social and scientific services. Publicization took place particularly in New Zealand, Australia and the United Kingdom. It is likewise taking place in several European countries and more recently in the United States in the field of basic education. The right to free basic schooling is increasingly being met by public non-state schools of a community nature whose operational costs are financed by the state.²⁴ In Britain, universities and National Health Service hospitals, which used to be part of the state, were transformed in to *quangos* (quasi

non-governmental organizations). In Holland, all national museums were transformed into non-profit organizations. In Brazil, the ongoing publicization programme foresees that state social and scientific services will become 'social organizations' – public entities operating according to private law that are so recognized by the state, enter into management contracts with the government and are consequently financed in part or in full by state funds.

Finally, in analysing the rows of Figure 8.1, we have Core Activities and Auxiliary or Support Activities. Core activities are those that pertain to the state itself, those through which the power of the state is exercised; they include law making, regulating, administering justice, law enforcement, taxation, policy making and fostering social and economic development. But for these roles of the state to be performed, it is necessary for politicians and the high-level state bureaucracy at the strategic core, as well as for medium level public administration,²⁵ to have the support of a series of auxiliary activities or services: cleaning, security, transportation, catering, technical computer services, data processing, etc. According to the logic ruling the state reform of the 1990s, these services should in principle be outsourced, i.e. they should be awarded by a competitive bidding procedure and contracted with third parties. In this sense, these services, which are marketplace services, are carried out in a competitive manner, enabling the Treasury to benefit from substantial savings.

There can always be exceptions to this outsourcing process; grey areas will always exist. Is it convenient to outsource the work of secretaries? Probably not, although their role has decreased considerably in the modern administration. There are other services such as those, in which, because of their proximity to the exclusive activities, outsourcing is not advisable. Because of that and because there will always be grey areas between what should be the subject of 'publicization' and what should not, it is suitable to consider two legal systems within the state: one governing statutory officials and another governing employees. That is in fact a common practice in developed countries, endowed with developed bureaucracies. The condition of being a statutory civil servant is limited to those who make a career within the state; the other public servants who perform auxiliary activities that are not to be outsourced and that cannot be the subject of 'publicization' are considered employees.

Support services outsourcing, which all modern states are engaged in, is just another chapter in the subcontracting that gained strength in mid-century, when public works were outsourced. At the outset of the twentieth century, it was still the norm for the state to undertake its engineering projects and works directly. With the appearance of contractors and engineering companies, this practice vanished. Similarly, privatization is in part a process involving a return to the principles of concession of public services.

	State Exclusive Activities	Social and Scientific Services	Goods and Services Production for the Market
Core Activities	State as Staff	Non-State Public Entities	Privatized Enterprises
Auxiliary Activities	Outsourced Enterprises	Outsourced Enterprises	Outsourced Enterprises

Figure 8. 2: Institutions Resulting from State Reform

In state reform, the outcome of this threefold process – privatization, publicization and outsourcing – is that the state, when seen as staff, is limited to just one section in Figure 8.1. In the other sections, as can be perceived in Figure 8.2, we find the Public Non-State Organizations,²⁶ Privatized Enterprises and Outsourced Enterprises. The first section is described as ‘State as Staff’ because the state is greater than its staff, insofar as we have a social state and not a liberal state; it is, however, a state that is ceasing to be a social-bureaucratic state that directly performs social services, to become a social-liberal state that contracts out competitive services. The best way to measure the size of the state as compared to the country or nation-state it forms part of is not by considering the ratio of members of its staff related to the total workforce, but by considering the percentage of the state expenditure related to its GDP. In the social-liberal state, the second ratio (expenditure to GDP) will be considerably greater than the former (statutory civil servants to workforce), discounting the fact that the average salary of the civil servants is greater than the national average salary. The social-liberal state of the twenty-first century, just like the social-bureaucratic state of the twentieth century, will continue to be a significant promoter or financing agent of social and scientific activities, except that the execution of those activities will be carried out by public non-state entities. To represent this fact graphically, the ‘State as Expenditure’ would take up a large portion of the column devoted to social and scientific services, insofar as they are financed in a non-recoverable way by the state budget.²⁷

DEREGULATION

Besides setting the limits for the sphere of the state's direct action, state reform involves establishing the limits for its role as a regulator and hence for the deregulation processes that are taking place today. It is one thing to define the institutional scope of the state and know whether the state should undertake a series of activities directly – as in the social-bureaucratic state – or whether it should tend to confine itself to its specific functions, as in the ongoing state reform of the social-liberal state. However, determining the scope of its role as a regulator of private activities is something quite different. It is a specific function of the state, since it enacts the laws that govern social and economic life. But what should be the extent of this regulation, especially with regard to economic activities? As society becomes more complex and the state grows, its regulation will also tend to be more extensive. Yet, regulation has often been excessive. In the United States the state has a tendency to regulate in order to protect social rights, assure quality standards for goods and services and ensure the proper operation of the market in monopolistic areas, and thus it finds it easy to incur excesses; Japan and Germany do something similar, although their purpose is to promote cooperation among companies (Audretsch, 1989). There was a movement in favour of greater regulation towards the end of the nineteenth century, whose main defenders were the consumers and small enterprises in the United States (Audretsch, 1989, chapter 5). Since the 1970s however, these same groups have been going in the opposite direction, towards deregulation. Actually, regulation implies a cost for the economy; it is a kind of tax that is not collected but that the private sector is forced to pay.²⁸ A cost which is often necessary, but that at other times simply responds to special interests.

The fight against regulatory excesses was always the fight of the liberal economists armed with their neoclassical theory on self-regulatory markets. Rigorously speaking, mainstream economics developed on the basis of the assumption that the market is capable of optimally coordinating the economy and so state intervention is not necessary. But this theory, and the ideology behind it, although long dominant, did not prevent the state from regulating the economy intensively. Given that, one of the neo-liberal founders of the School of Chicago, George Stigler (1975, pp. X–XI), adopted a new approach to the problem: to develop 'the political economy of regulation', i.e. to check who benefited from regulation, based on the principle that there is a political market for regulatory legislation. Who are these beneficiaries? Stigler (1971, p. 114) considers that as a rule, regulation is a demand of the economic sector and is mainly aimed at benefiting it. Based on that approach, Stigler founded a new conservative political economy, that has been extraordinarily developed

through the concept of rent seeking (Krueger, 1974) and by the rational choice school headed by Buchanan and Olson.

The purpose of this paper is not to review the abundant literature on regulation and deregulation. It gained momentum in the 1980s, when the privatization process began in the United Kingdom, and then spread out universally. Yet the limits of privatization and deregulation soon became apparent, since the privatized natural monopolies now demanded even greater regulation.²⁹ The liberal agenda found it therefore necessary to deregulate and regulate simultaneously: deregulate in order to reduce state intervention; regulate to render privatization viable. Whatever the circumstances, the problem of the limits to state intervention in the market persisted. State reform, as it took place in the 1990s, inherited all this debate, at a time when the limits of the neo-conservative proposal in favour of reducing the state to a minimum became clearer.

Instead of summarizing this debate – which is not among the objectives of this paper – I would like to mention the logic underlying the present day reform which I am describing.

Mainstream neoclassical economics, mainly after Coase (1937) and Williamson (1985), assumes that market coordination is in principle more efficient. However, due to transaction costs, it can be more efficient to have certain activities coordinated administratively. That is what leads to the emergence of enterprises, or rather organizations, within which the market does not work; they are submitted externally to the market, but not internally. This theory is appealing; it is one of the most stimulating discoveries that have taken place in the field of economics in this century. It is, nonetheless, a purely economic theory, that may only be applied to a limited extent in the field of politics. Ultimately, it reiterates the issue that the market is the best way to coordinate or control an economic system, and fails to do so only in exceptional cases, depending on transaction costs. In these terms, it does not provide us with a satisfactory explanation, nor does it give us clear criteria to identify the areas in which the state should act and those which should be left to the market.

The regulation process that took place in the twentieth century involved subsidies and fiscal waivers of all kinds. Industrial, agricultural and foreign trade policies became omnipresent, and eventually turned excessive, distorting economic calculus and allowing the private capture of the *res publica*, as it responded to special interests. Yet, this does not lead us to infer that the state can or should withdraw fully from regulating the economy. Regulations generally imply a heavy cost burden for the companies, detracting from their international competitiveness. That is why there is a tendency to reduce them as much as possible. In contrast, subsidies, protectionist measures and fiscal waivers give rise to deep distortions in relative prices, stimulate rent seeking and imply

high costs for the state. It is for this reason that state reform aims at reducing them substantially, although realistically speaking, it is not possible to conceive that they can be altogether eliminated. In many areas the state still has an essential role to play as a regulator. Foreign trade policies, for instance, are more active today than ever before. Environmental control policies have never been as significant as they are now. Faced with such a complex problem as this one, Cardoso (1996, pp. 15–16) presents criteria that help us to think about the issue, taking as a starting point the combination of greater efficiency and better income distribution:

The problem we face is twofold: efficiency and equity ... In this respect, the state-market dilemma is false. The role of the state as regulator when faced with, for instance, ecological issues, has increased constantly. Thus, the correct proposal for us to study is *the role of the state in the market*. The question is how to increase competitiveness (that leads to a rise in productivity and the streamlining of economic activities) and how investment decisions, and those which affect consumption, can be made more public, i.e., how can they become more transparent and liable to be controlled by society ... and not just by bureaucracies (those of the state or of companies). (Italics by the author.)

THE RANGE OF CONTROLS LOGIC

There may not be a general theory aimed at setting the limits to the sphere of action of the state or to the extent of its regulation of the market. Yet, based on the state reform of the 1990s, it is possible to find a logic that helps to distinguish what is supposed to be in the public and in the private sector, and, within the public sector, what is supposed to remain in the state and what should belong to the public non-state sphere. I propose to call this logic ‘the range of controls logic’.

In order to coordinate itself, every society uses a series of control and coordination mechanisms besides its traditions, basic values and beliefs. From an institutional perspective, and by a simplification, there are three basic control mechanisms: the state, civil society and the market. The state comprises the legal system, which is made up of the legal rules and the main institutions that govern society. The legal system is the most general control mechanism, practically identifying itself with the state insofar as it establishes the basic principles for other mechanisms to be able to operate. The market, in turn, is the economic control system that is driven by competition. Finally, the third mechanism is civil society, i.e. society structured according to the relative political weight of the different social groups, that organizes itself to protect private interests or special

interests of a collective nature, or acts in the name of public interest. No matter which, all of them are essentially control mechanisms.³⁰

Instead of the institutional criterion, it is however possible to use a functional criterion, superimposed over it but not the same. According to this view there are also three types of control: hierarchical or administrative control exerted within public or private organizations, democratic or social control exerted in political terms over organizations and individuals, and economic control exerted by the market.

Based on the functional criterion, it is possible to order the control mechanisms which are relevant for our analysis in a range that covers, from one end, the most diffuse, automatic and democratic control mechanism, to the other end, the most focused control mechanisms resulting from decision-making processes; or, in other words, from the most democratic to the most authoritarian disposition. According to this criterion, the following control mechanisms can be identified, besides the legal system which comes before any of them: (1) market, (2) social control (direct democracy), (3) representative democracy, (4) managerial hierarchical control, (5) bureaucratic hierarchical control and (6) traditional hierarchical control.

The principle behind the choice of controls is that the most general, most diffuse and most automatic is the one to be preferred, provided that it is efficient and effective. That is why the market is the best control mechanism, since competition in principle leads to the best results with the lowest costs, not implying the use of power, whether democratic or hierarchical. For that reason the general rule is, that whenever it is possible for the market to control something, it should be the control mechanism of choice. Nonetheless, there are many situations that escape from market control, be it because there are other values at stake apart from the economic one (and the market only controls economic efficiency), or because even in the economic field the market often does not operate properly. This is because of: (a) its own imperfections, and (b) the existence of positive externalities, the ones that have not been adequately remunerated by the market, or of negative externalities, the ones that are not punished by the market. Consequently, it is necessary to consider other forms of control.

Direct democracy or social control is, in this scale model or range, the next most democratic and diffuse control mechanism. Social control enables society to organize itself formally and informally to control not only individual behaviour but also public and private organizations, which is what matters in the context of this analysis. Social control may also take place in the political field by referendum or plebiscite. It may originate in two ways: either from the grassroots up, when society organizes itself politically, aiming to control or to influence institutions over which it does not have formal instruments; or top

down, when it takes on the role of guiding public non-state institutions as a deliberate consequence of state reform. Direct democracy is ideal and it is increasingly being used at local level or to control decentralized public services, but it is still not feasible at national level except in a restricted manner, when the people are asked by means of a referendum to confirm or orient the decisions of their representatives about subjects very clearly defined.

In the third place there is representative democracy; by means of this mechanism society is represented by elected politicians who are empowered by society. The legislative branch in modern democracies is organized according to this principle. The parliamentary system is intended in part to transfer this same principle to the executive branch. Anyway, the limitations of this kind of control are also obvious, insofar as it is only suited to define general laws and not to execute them.

In this respect society depends on the hierarchical type of control, which can be managerial (rational), bureaucratic (rational-legal) or traditional. Weber clearly defined the latter two kinds of domination or hierarchical control. In the administration of the state traditional control corresponds to 'patrimonialism'; bureaucratic rational-legal control to 'bureaucratic public administration', in which objectives and the means to attain them are rigidly defined by law; and managerial control to 'managerial public administration', that will be analysed in greater detail in the next section.

These six types of mechanisms – excluding the legal mechanism that overlies all of them – are generally combined with each other in specific social arrangements. In historical terms, and from an optimistic perspective of history, it can be considered that in primitive societies the prevailing controls were traditional hierarchical and social control. In the complex pre-capitalistic societies, hierarchical traditional control turned dominant and was expressed in patrimonialism. In the liberal capitalistic regimes of the nineteenth century, the dominant types of control were bureaucratic control combined with a representative democracy and with market control. In the social-bureaucratic capitalism of the twentieth century, bureaucratic control combined with a representative democracy and regulated markets prevailed. Last, in the global capitalism that is now emerging as well as in the state reform of the 1990s, a combination of managerial hierarchical control, representative democracy, social control or direct democracy, and market control will be predominant.

In terms of the public and private spheres, both were mixed in primitive society and under patrimonialism; in the times of liberal capitalism, the private sphere was made distinct from the public one and gained autonomy; in social bureaucratic capitalism, the public sphere grew once again as the state; in the capitalism of the twenty-first century, the public sector will increase in size

once again, not as the state grows but as the public non-state forms of organization of production and social control grow.

This logic guiding state reform has a historic nature and simultaneously follows a few general principles: basically, the political preference for democracy or for a more spread-out or diffuse distribution of power; the economic preference for greater efficiency and effectiveness; the economic and political preference for automatic controls, and the principle of enlargement of the public non-state sphere.

GOVERNANCE: ADMINISTRATIVE REFORM

Following the above range of controls logic, there is a third essential element of state reform of the 1990s: governance.³¹ A government may have governability insofar as its leaders have the necessary political support to rule, but it can at the same time fail to rule properly due to lack of governance. Governance exists in a state when its government has the required financial and administrative conditions to implement the decisions it takes. A state that is undergoing a fiscal crisis, that has a negative public savings rate, and therefore lacks the resources to undertake investments and to finance social and scientific policies, is a state that has been rendered immobile. The crisis of the state in the 1980s was above all a crisis of governance because it first manifested itself as a fiscal crisis.³² That is why fiscal adjustment policies took priority in that decade. In the 1990s, fiscal adjustment still remains an essential question – actually it is a permanent problem for all countries – but it is now increasingly clear that to adjust is not enough to achieve good governance: the reform of public administration is also required.

The issue of the managerial capacity of the state, and hence of administrative reform, became fundamental in the 1990s. Administrative reforms are a recurring issue. Almost all governments, at all times, talk about the need to have a more modern public administration, a more efficient one. However, there have been only two structural administrative reforms in capitalism. Replacing 'patrimonialist administration', the first reform involved the implementation of the bureaucratic rational-legal public administration; it took place in the nineteenth century in the leading European countries, in the first decade of this century in the United States, and in the 1930s in Brazil. The second, occurring now, is the change towards a managerial public administration. This new public administration had its first manifestations in the 1960s, but only started to be put into effect in the 1980s in the United Kingdom, New Zealand and Australia, and in the 1990s in the United States of America, when the sub-

ject caught the attention of the public at large with the publication of *Reinventing Government* and the adoption of the National Performance Review by the Clinton administration. In Brazil it has been implemented since Fernando Henrique Cardoso took office and the *Plano Diretor da Reforma do Aparelho do Estado* (*Master Plan for the Reform of the State Apparatus*) was approved and began to be enacted (1995). Until this date, the two countries in which managerial public administration had been more extensively implemented were the United Kingdom and New Zealand, in the former country under a Conservative government, in the latter initially under a Labour administration.

I do not intend here to repeat what I have been writing recently on managerial public administration.³³ It is important, however, to point out that bureaucratic public administration, described by Weber as a 'rational-legal' form of domination, was characterized by an intrinsic contradiction. A bureaucratic administration is rational, in terms of instrumental rationality, insofar as it adopts more suitable (efficient) means to attain its goals. It is, on the other hand, legal, insofar as it rigidly defines the objectives and the means to achieve them in law. However, in a world that is undergoing a complete technological and social transformation, it is impossible for a manager to be rational if he does not have decision-making capacity, if he cannot use his discretion and judgement, but must, on the contrary, blindly follow the procedures laid down in the law. In the nineteenth century, when bureaucratic public administration replaced the patrimonialist one, this involved a great step forward in putting an end to corruption and nepotism. Nevertheless, in the twentieth century, when the state grew and assumed new roles, and scientific discovery and technological change progressed at an unprecedented pace, the inherent inefficiency of this type of administration became evident. At the same time as the state bureaucracy – i.e. the professional civil servants taken as a whole – experienced a rise in their strategic position in society, it was clear that new forms to manage the *res publica* had to be adopted, forms that were more compatible with technological progress, speedier, decentralized, more aimed at controlling results than at controlling procedures. And they also had to be more in line with the progress of democracy throughout the world, which increasingly required a more direct involvement of society in public management.

I would therefore like to define the main characteristics of the managerial public administration, which is also being called 'new public administration', as follows:

1. The administration is citizen-user or citizen-customer oriented.
2. There is an emphasis on the control of results through management contracts (instead of control of procedures).

3. The state bureaucracy is strengthened and given increased autonomy, particularly the civil servants' bodies that execute the exclusive activities of the state, so that their political and technical role in formulating and following up public policies, together with the politicians and society, becomes apparent and more worthy.³⁴
4. The secretariats in charge of public policy making, of a centralized nature, are separated from the decentralized units which execute those same policies.
5. A distinction is made between two types of decentralized units: the executive agencies, which carry out exclusive state activities and are by definition monopolistic, and the social and scientific services that are of a competitive nature, and in which the power of the state is not involved.
6. The above social and scientific services are transferred to the competitive public non-state sector.
7. In order to control these decentralized units, (a) direct social control mechanisms, (b) management contracts in which performance indicators are clearly defined and the results measured, and (c) the formation of quasi-markets in which administered competition takes place are adopted.
8. Auxiliary and support activities that are subject to a competitive bidding procedure in the market are outsourced.³⁵

The increase in the autonomy of the state bureaucracy should not be confused with bureaucratic insulation – i.e. the insulation of the state agencies from political influences – which is frequently proposed as a solution to economic populism and clientelism.³⁶ In democratic societies, the high cadres in public administration are embedded in the political process and are part of it. The ideal type of purely technical bureaucrat does not make sense, in the same way as it does not make sense to assign him the role of ensuring the rationality of public administration and more broadly of government, a rationality that would continuously be threatened by politicians. This is an authoritarian view, which still believes in the enlightened monarch and in the 'good' dictator – it is a point of view that is finally being overcome through the progress achieved by democracy in this century. Peter Evans (1995) proposes that the contradiction between the need for autonomous state bureaucracies and democracy can be overcome by means of the concept of 'embedded autonomy', i.e. through a bureaucracy that is simultaneously autonomous and embedded in society.³⁷

In carrying out exclusive state activities, it is necessary to distinguish between three types of institutions: the public policy-making secretariats at the strategic core of the state, together with the ministers and head of the government who are involved in the strategic decisions taken by the government; the

executive agencies, which carry out the policies defined by the government; and the regulatory agencies, which enjoy a greater degree of autonomy and try to set prices that would be market prices in a realm of natural or quasi-natural monopolies. The regulatory agencies must be more autonomous than the executive agencies because they do not exist with the purpose of implementing government policies but rather to carry out a more permanent job, i.e. replacing competitive markets and fostering market competition.

In short, governance is achieved and state reform will be successful when the state becomes at the same time stronger and smaller: (a) financially stronger, since the financial crisis of the 1980s has been overcome; (b) structurally stronger, with clearly set limits for its sphere of action, and with a precise distinction between its decision-making strategic core and its decentralized units; (c) strategically stronger, endowed with political élites capable of taking the necessary political and economic decisions; and (d) administratively stronger, with a technically capable and motivated bureaucracy.

GOVERNABILITY: POLITICAL REFORM

Finally, state reform implies a political reform which guarantees its governability. Much has been said in recent years on governability, mainly since the Great Crisis of the 1980s fully hit Latin America and Eastern Europe, but this governability crisis was evidently combined with a governance crisis, since its main cause was the fiscal crisis of the state.³⁸ Governability and governance are concepts imprecisely defined and frequently mixed up. The political capacity to govern, or governability, derives from the relation of the legitimacy of a state and its administration *vis-à-vis* society, whereas governance is the financial and administrative capacity of an administration to implement policies. It is impossible to have governance without governability, but the latter can be highly deficient even under satisfactory conditions of governability. In the concept of governance can be included, as Reis does (1994), the capacity to add up the different interests, thus establishing a bridge between governance and governability. Good governance, as observed by Frischtak (1994), increases the legitimacy of a government and, consequently, the governability of the country.

If even in advanced democracies, governability problems often arise, what can be said about the recent and imperfect democracies, where political institutions are poorly defined, and governments are unstable, easily losing political support? So, on the problem of governability, the most serious – if not fatal – condition for governments is to lose the support of civil society, since, in prac-

tical terms, governability depends on government legitimacy, that is, on the support it has from civil society.

Governability in democratic regimes depends: (a) on strong political institutions, able to make governments representative, and to mediate adequately between conflicting interests; (b) on the existence of mechanisms that make politicians and bureaucrats accountable; (c) on society's capacity to limit its demands, and on the government's ability to respond to the demands which are eventually maintained; and, essentially, (d) on the existence of a basic social contract. It is this basic social agreement, this Hobbesian social contract, that guarantees legitimacy and governability in advanced societies. In developing countries, especially in Latin America, where society is characterized by a deep heterogeneity, this agreement is often absent or imperfect. Thus the relevance of political agreements which are oriented towards economic development. These pacts and the respective economic development projects are always relatively exclusive, as they keep part of the population out of it, but they grant a vision of the future to society, thus making government feasible.³⁹

The political dimension of state reform is at the same time the most important, since the state is the political entity 'par excellence', and the least clear, since we can not speak of a state political crisis in the 1990s. Political crisis is a synonym of governability crisis. The government lacks the conditions to govern effectively because it loses legitimacy *vis-à-vis* society or because its institutions are inadequate for exercising political power. We cannot say that democratic governments, both in developed and developing countries, are in crisis because they have lost social legitimacy or because their political institutions have deteriorated. On the contrary, the twentieth century was, in final terms, the century of democracy. In the developed countries, it was consolidated in the first half of the century; in the developing ones, it began to be affirmed in the second half, particularly since the early 1980s, when a wave of democratic transitions took place in Latin America, then in Eastern Europe and more recently, in Asia.⁴⁰

It is only possible to speak of a political 'crisis' if we compare reality with an ideal situation – if we think, for instance, that democratic regimes do not ensure a 'good government', i.e. government which would lead society in an optimal way. Naturally, this is at the core of the concerns of the rational choice school, which dominated North American political science over the last twenty years. It is the fundamental basis of neo-liberal criticism of state intervention since, according to the neo-conservative view, there is no way to ensure that politicians actually rule in the interest of those who are ruled; on the contrary, since they tend to rule in their own interest, good government is almost impossible, and the best alternative is to downsize the state to a minimum, thus reducing the

need to govern to what is strictly necessary; markets would take care of everything else.

The misconceptions involved in this approach start with the method used. Instead of thinking of politics and policy making as a historical process which evolves over time, going through crisis and transformations, never reaching an optimal status, neo-conservatives see politics and administration as something static and abstract. Supported by the neoclassical microeconomic view, it understands the political process as a frustrated optimization process, as a principal-agent relationship, in which the principals are the citizens and the agent, the government. It would really be very difficult to have good government with selfish politicians, aiming exclusively at satisfying their political ambitions and rent seeking.

Yet this method enables us to discuss certain essential problems, which often remain implicit in analysis based on the inductive/historical approach. Przeworski (1995a), adopting the rational choice method, wrote a fascinating essay on state reform. After summing up the internal criticism of the neoclassical assumption of market efficiency – using for that purpose Stiglitz's analysis (1992, 1993a, 1993b) and his own (1990), he tried to respond to two questions: (1) which are the political conditions enabling a state to intervene efficiently?; and (2) how can state institutions be reformed so that market failures are corrected and not made more serious? To answer those questions, Przeworski criticizes Chicago's and Virginia's neo-conservative models. Electors may be relatively ignorant, but they are 'rationally ignorant'; they are informed on what interests them. On the other hand, the role of political opposition should not be underestimated; opposition keeps voters critically informed of government performance.⁴¹ That is why a good government would be possible – not because politicians were committed to the public interest independently from the electoral advantages involved.

This is an internal criticism of the neo-conservative model, which accepts the assumptions of the rational choice school: politicians are exclusively moved by a willingness to be reelected and rent seeking or, in other words, all actions of politicians may be explained by the support they will receive from voters or by the economic gains that they will secure for themselves by making use of the state power to make transferences to given interest groups. When both objectives are not consistent, the ruler will make trade-offs between them. Yet, in spite of the intellectual attractiveness of limiting the critique to internal criticism, this is not always possible and it is certainly not realistic in the present case. Politicians are moved by a third reason: their commitment to their ideological and moral principles, that is, their own assessment of what is the public interest. This type of politician – the good politician – will eventually

become a statesman. He also carries out trade-offs, but the basic trade-off is between his desire to be re-elected and his commitment to the public interest. When the existence of this third motivation is assumed, the immediate problem that appears is that related to the objective of political reform. Is it a question of guaranteeing as much as possible that the will of citizens be met by politicians, as stated by Przeworski, or of ensuring that the public interest be met when it conflicts with the electorate's assessment? As Przeworski (1995a, p. 1) observes:

My argument is that the quality of intervention in an economy depends largely on the effectiveness of the mechanism through which governments are obliged to be accountable to the public for the results of their actions.

Undoubtedly, a main intermediate objective of any democratic regime is to increase the accountability of politicians. Politicians should always be accountable to their citizens. The clearer the responsibility of the politician *vis-à-vis* citizens and their claims, the more democratic the regime is. But this does not mean that all the claims of the citizens should be accepted by politicians. To hold this view implies that the 'imperative mandate' is a requisite of democracy: the politician would be elected exclusively to meet the purposes of his voters, and could lose office in case of conflict with them. The imperative mandate, however, is the result of collective democratism rather than of democracy. According to Bobbio (1984, p. 10):

Modern democracy, born as representative democracy, as opposed to the democracies of antiquity, should be characterized by political representation, that is, a representation in which the representative who is called to look after the interests of the nation cannot be subjected to an imperative mandate.⁴²

The accountability concept already implies the rejection of the imperative mandate.⁴³ The ruler is not only accountable *vis-à-vis* the electorate; he is also accountable to his own conscience. His republican virtues are also part of the democratic concept. Stokes (1995), acknowledging that this freedom is implicit in the accountability concept, proposed the concept of 'responsiveness' as an additional condition of democracy. The responsive ruler would be the one who faithfully met the wishes or determinations of the citizens. In fact, there is no need for that concept, unless we accept the imperative mandate as a valid democratic institution. If we agree that the imperative mandate is not desirable, there is no need to think of responsiveness; it is sufficient to think of the politician's accountability towards the citizens and himself. Good political institutions, plus a political culture based on democratic and republican values,

will enable politicians to be accountable to voters, as they encourage governments to act in accordance with the public interest, rewarding good governance and penalizing bad. In the final analysis, the good politician will be the one who is capable of differentiating the short-term interests of his voters – which they perceive immediately – from their medium and long-term interests, and be loyal to the latter and not the former.⁴⁴ This will not make trade-offs impossible for him regarding his re-election objective, but will give him a sense of the priorities.

The imperative mandate is linked to a radical concept of democracy, which makes no sense when we recall that ultimately politics is the art of commitment, a strategy of mutual concessions, a difficult intermediation of interests in conflict. On the other hand, at the opposite extreme, the concept of the statesman as a politician who has the courage and vision to face his electorate and risk his re-election to be loyal to his concept of what is public interest, is associated with the idea of the enlightened monarch, or republican virtues. Greek philosophers preferred monarchy to democracy because they knew about the instability of democracy in those times, and had a clear differentiation between monarchy and tyranny, and they expected the monarch to be enlightened. Now, in the contemporary world in which democratic regimes can be stable because the economic surplus is no longer appropriated by the use of political power but through the market, none of the extremes makes sense – neither the imperative mandate, nor full dependence on the statesman or on republican virtues (or the enlightened monarch).

From the point of view of political reform, there is no doubt that it is necessary to focus attention on institutions which guarantee or even better, which increase politicians' accountability, once this is a matter of degree. To reform the state in order to grant it greater governability is to make it more democratic, to endow it with political institutions enabling a better mediation between the conflicting interests of the different social and ethnic groups and nations of the different regions in the country. While the market is the field where equivalents are exchanged, and may hence be relatively impersonal, from the economic point of view, the state is the realm of transferences. Politics and policy making in contemporary capitalism is largely a struggle for the size of the tax burden and, given the budget, for those transferences, which are often only more-or-less successful rent-seeking attempts. But, in principle, this struggle is legitimate, representing class and group differences which are the very object of politics. The political challenge state reform faces is to have political parties corresponding to ideological orientations; to develop an electoral system which enables representative governments with stable majorities; to have a vigorous opposition fighting within a common field of interests; to have a free and re-

sponsible media that better reflects the opinions of the readers, listeners or viewers than those of the media owners or of their advertisers; to have a legal system which not only makes justice among citizens and defends them from the state but which also knows how to defend the *res publica* against the ambition of powerful citizens wishing to capture it; to have a bureaucracy which is less self-referred and abandons the practice of secrecy, managing the public patrimony with transparency; to have a legislative power relatively immune to clientelism; to develop systems for the participation of citizens in the direct control of state and public non-state institutions; to have a more transparent and democratic way of financing electoral campaigns; and finally, to develop accountability systems for politicians and senior public bureaucrats.

CONCLUSION

The state reform we examine in this article is a historical process whose dimension is proportional to that of its crisis. The crisis started in the 1970s and exploded in the 1980s, and led to the resurgence of neo-liberalism and to a deep criticism of state intervention by some eminent intellectuals and a few neo-conservative politicians; few, because politicians are more realistic than intellectuals. It was precisely that realism of politicians and, more broadly, of the ruling classes at world level, which led them in the 1990s to abandon the idea of the minimum state and concentrate their attention on state reform. Since the main cause of the large economic crisis of the 1980s was the crisis of the state, the correct thing to do was to rebuild it instead of erasing it.

In this paper I examined the main lines of that reform. I divided it into four sections: setting the limits of the state's direct sphere of action, deregulation, strengthening of governance and the conquest of governability. To present these four subjects I developed a model based on differentiation between state, public non-state and private organizations, and between exclusive state activities and competitive social and scientific services that the state is supposed to finance. Deregulation was seen as a problem of degree and of cyclical movements of state intervention. Governance was seen as a question of fiscal adjustment and administrative reform towards a managerial public administration. Governability was considered to be the outcome of the development of political institutions which guarantee a better intermediation and representation of interests combined with a democratic culture and republican values. As a basis for the model, I developed a general explanation that I called the range of controls logic, according to which the control mechanisms of contemporary capitalist societies ranged from market control to traditional hierarchical control.

The outcome of the reform that took place in the 1990s will be a more efficient and democratic state, responding to those to whom it definitively has to respond: the citizens. Thus, it will be a state acting jointly with society and according to its desires. It will be a state less centred on protection and more on promoting competition capabilities. It will be a state which will not use state bureaucrats to provide social and scientific services, but which will contract out to public non-state organizations for that purpose and on a competitive basis. It will be what I propose to call a social-liberal state, replacing the social-bureaucratic state of the twentieth century: certainly a democratic state, because the great political feat of the twentieth century was the consolidation of democracy. The democratic regime was able to establish reasonably stable institutions and a sufficiently sound democratic culture, so that its great limitation – political instability – was overcome or prevented. That instability led the Greek political philosophers to prefer a ‘good’ monarchy and a ‘good’ aristocracy instead of democracy, knowing that the risk of monarchy was tyranny and that the risk of aristocracy was oligarchy. Today, in view of the economic and political development that has taken place, democratic regimes are far more stable than authoritarian regimes.⁴⁵

The state reform of the 1990s was a reform which presupposed citizens and was devoted to them: citizens less protected or ruled by the state, with greater freedom, inasmuch as the state reduced its paternalistic approach; citizens who combined cooperation and competition; and citizens who were politically more mature. These citizens would probably be more individualistic because they were more conscious of their individual rights, but they would also have more solidarity among themselves (although this may appear to be contradictory), because they were more fit for collective action and, consequently, more willing to organize themselves in institutions oriented to the public interest, and in corporatist institutions oriented towards the protection of group or class interests. This ongoing reform, as I see it, is not based on the bureaucratic premise of a state insulated from society, acting only in accordance with instrumental reason, nor on the neo-conservative premise of a state lacking a society, in which isolated egoistic individuals make decisions on the economic and political markets. That is why it requires the active participation of the citizens; that is why the new state which is emerging will not be indifferent or superior to society. On the contrary, it will institutionalize mechanisms enabling an ever-growing participation by citizens, an ever-growing direct democracy. That is why the ongoing reforms are also the expression of a redefinition of citizenship itself: citizens are expanding their scope, becoming social subjects more aware of their rights and duties within a democratic society in which competition and solidarity will continue to be complementary and contradictory elements.

I am quite aware that this is an optimistic view. It does not deny that poverty and injustice and lack of respect for civil and political, social and republican rights, are still dominant problems all over the world. It just assumes that, although unsatisfactory, progress is taking place, and that the reform of the state is today an essential and strategic step in the right direction.

NOTES

1. I initially studied the crisis of the state in 'Economic Reforms and the Cycles of the State' (Bresser Pereira, 1993a) and in the essays published in *A Crise do Estado* (Bresser Pereira, 1991).
2. I mean economists such as Friedrich Hayek, Milton Friedman, James Buchanan, Mancur Olson and Anne Krueger.
3. My theoretical work on this consists of 'A Emergência da Tecnoburocracia' (Bresser Pereira, 1972) and 'Notas Introdutórias ao Modo Tecnoburocrático ou Estatal de Produção' (Bresser Pereira, 1977a) which were later included in the book *A Sociedade Estatal e a Tecnoburocracia* (Bresser Pereira, 1981); an unpublished paper called 'As Classes Sociais no Capitalismo Contemporâneo'; and chapter 10, 'Etapas do Desenvolvimento Capitalista' in *Lucro Acumulação e Crise* (Bresser Pereira, 1986).
4. The sustained growth rate in the United States since 1991 may indicate that this country benefited by the end of the Cold War, which permitted a sizeable fiscal adjustment; it was the first to overcome the crisis and is engaging in a new long wave of growth. Britain, which underwent structural reforms in the 1980s, may be in the same position.
5. These distortions usually have a cyclical character. I examined the cyclical quality of state growth and intervention in Bresser Pereira (1993a).
6. I shall examine the concept of management-oriented public administration later on, in the section concerning governance and administrative reform. To see the subject in greater depth see Bresser Pereira (1996c).
7. See Melo and Costa (1995). The authors analysed the dissemination of neo-liberal policies and more broadly the policy bandwagoning mechanism consisting of the emulation by governments of public policies that were successful in other countries or regions.
8. On the reactionary nature of neo-liberal thinking, see Hirschman (1991).
9. A systematic presentation of this view can be found in Bresser Pereira, Maravall and Przeworski (1993). In practical terms, the shift towards economic policies aimed at fiscal adjustment and state reform in social-democratic governments, that took place in France (1981), Spain (1983) and Brazil (1995), were manifestations of this new stand of the modern social-liberal centre-left.
10. Eventually the WDR was given the title *The State in a Changing World*, but it kept its basic inspiration: the reform or rebuilding of the state. In its introduction, the report affirmed that sustained development – economic and social – demands an effective state. 'Fifty years ago, when people said that the state had a central role in economic development, they meant a development guaranteed by the state; today we are once again seeing that the state has a key role in economic and social development, but mainly as a partner, as a catalyzing and facilitating agent' (World Bank, 1997).
11. Bob Jessop (1994, p.103) affirms that in the twenty-first century the Keynesian welfare state will be replaced by the Schumpeterian workfare state that promotes innovation in open economies and subordinates social policy to the needs of market flexibilization and international competition requirements. There is a clear connection between the concept of a social-liberal state and the Schumpeterian workfare state.

12. To analyse the state reform from this perspective see Przeworski (1996b) and Melo (1996).
13. In measuring the size of the state by its expenditure, the World Bank (1997, p.16) confirmed that in three and a half decades, between 1960 and 1995, the state doubled its size.
14. European states which developed a sophisticated welfare system, ensuring that all their citizens would have a minimum standard of living, are now at the upper limit, whereas countries with an intermediate level of development, and the United States, where inequalities are great and some minimum social rights are not guaranteed, are clustered around the lower limit. As Adam Przeworski wrote (1995b), for a country to be 'civilized', i.e. for it to have less than 10 per cent of its population below the poverty line, it is necessary for the tax burden to be about 45% of GDP. According to this criterion, the United States is not a civilized country, since roughly 18% of its population is poor.
15. There is a huge amount of literature on the economic argument; see particularly Stiglitz (1989, 1993b, 1994) and Przeworski (1990, 1995b, 1996a).
16. In Brazil, state investments in the steel and petrochemical industries can be included among the former; those in telecommunications in the latter; and those in oil and electric energy in both cases. See Bresser Pereira (1977b, chapter 10) and Alves dos Santos (1996).
17. The word 'publicization' was created to distinguish this reform process from that of privatization.
18. In the United States, for instance, universities such as Harvard or Chicago are called 'private', but in fact they are public non-state organizations. The NGOs – non governmental organizations – are another form of public non-state property.
19. I say 'are or should be' because an entity that is formally public and non-profit making may in fact make profits, in which case it is a false public entity. Cases of this type are common.
20. The participative budget was introduced by Mayor Olivio Dutra (1989–1992) and then continued by Mayor Tarso Genro (1993–1996) both from the Partido dos Trabalhadores – Workers' Party.
21. I originally examined this matter in a paper on the transition of formerly Communist enterprises to capitalism. It proposed that large monopolistic utilities should not be privatized, at least at first, but rather transformed into public non-state organizations.
22. Corporatist organizations defend the interests of their members, be it in the political field (trade unions) or for consumption (clubs).
23. In general, however, it is possible to distinguish a public non-state organization clearly from a corporatist organization; it is also easy to distinguish it from a private organization. However, in countries where the state is not well organized, it is possible to find many organizations that present themselves as public non-state ones in order to benefit from fiscal exemptions; in fact they are private, profit-oriented for the benefit of one or more 'owners'. This is just a case of fraud and tax evasion.
24. In Spain, practically one quarter of students go to free community schools which receive from the state the equivalent of that spent in state-run schools. In the United States, 'chartered schools' have recently developed, following the same funding principle.
25. I am using 'public administration', followed by the predicative 'high-level' or 'medium-level', and 'state bureaucracy' as synonyms.
26. Public non-state entities which in Brazil, when subject to 'publicization', are called 'social organizations'.
27. It should be observed that the state can be measured including its state enterprises. In this case, however, we run into a series of difficulties since these enterprises are not financed by tax revenues but from their own sales. Anyway, this issue has lost relevance since the privatization processes became generalized.
28. According to *The Economist* (1996, p. 19), when reporting on the research undertaken by Thomas Hopkins at the Rochester Institute of Technology, the cost the companies had to pay to comply with regulatory laws accounted for \$668 billion dollars in 1995, whereas the total expenditure of the Federal Government that year was US\$ 1.5 trillion.
29. See Armstrong, Cowan and Vickers (1994), Claudio Frischtak, ed. (1995).

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30. In this paper the relative relevance of these three institutional control mechanisms is not analysed. It is clear that the perspective of the neoclassical economists, according to which the market has an absolutely dominant role, is too narrow. The critical perspective of evolutionary economics, expressed so well by Delorme (1995), is more stimulating; it stresses the role of institutions and organizations as well as their dynamic character, marked by the diverse control mechanisms and by the context in which they operate.
31. Governance is a relatively new term that the World Bank is using. A comprehensive book on this issue was written by Frischtak and Atiyas (1996).
32. On the nature of the present crisis as essentially a fiscal crisis of the state see Bresser Pereira (1987, 1988, 1991, 1993b, 1996a).
33. In January 1995 I took office as Minister of Federal Administration and Reform of the State in Fernando Henrique Cardoso's administration. Besides preparing the *Plano Diretor da Reforma do Aparelho do Estado* (Ministério da Administração Federal e Reforma do Estado, 1995), I have published a few articles on the subject (Bresser Pereira, 1995, 1996b and 1996c).
34. In the reform under way, bureaucratic public administration is being replaced by managerial public administration. This, however, is not intended to diminish the role of state bureaucracy, which has a strategic role in the administration of the state.
35. There is a vast literature on managerial public administration. See, among others, Barzelay (1992), Osborne and Gaebler (1992), Fairbrother (1994), Ranson and Stewart (1994), Nunberg (1995), Gore (1995), Abrucio (1997), Ferlie *et al.* (1996).
36. As observed by Melo and Costa (1995), governance is associated *inter alia* with the capacity for insulation of the professional bureaucratic élites *vis-à-vis* the political and party system, and the government élites *vis-à-vis* particularistic interest groups.
37. According to Evans (1995, p. 248): 'The autonomy (of the state bureaucracy) is essential in defining a developmental state, but it is not enough. The capacity of the state to undertake changes also depends on the relations between the state and society. Autonomous states, completely isolated from society, can easily be predator states. The states which aim at development must be embedded in a thick network of social relationships that links it with its allies in society based on transformation objectives. Embedded autonomy and not just autonomy, is what makes the developmental state effective.' This position is similar to the one I am presenting here, although the social-liberal state I assume is less interventionist in the economic field than Evans's developmental state.
38. See Diniz (1995, 1997) for a criticism of traditional governance analysis of the imbalance between the demand and supply of public services. On the governability crisis in Latin America see Ducatzenzeiler and Oxhorn (1992).
39. This matter was extensively analysed by Bresser Pereira and Nakano (1997).
40. This wave started with democratic transition in Spain in the 1970s, going through the other southwestern countries of Europe; it transferred to Latin America in the 1980s, and continued with the democratization of the former Communist countries by the end of that decade. In the 1990s, they were democratic transitions in East and Southeast Asia and attempts at democracy in Africa. The literature on the subject is very large. On democratic transitions in general see Linz (1982), O'Donnell and Schmitter (1986), O'Donnell, Schmitter and Whitehead, eds (1986a), Palma (1990), Przeworski (1991) and Huntington (1991); on transition in Brazil, Bresser Pereira (1978, 1985), Martins (1983), Stepan (1989), Lamounier (1989), Cardoso (1986); on transitions in Eastern Europe, Przeworski (1993); and for an analysis of ongoing transition in Asia, Haggard and Kaufman (1995), whose work also presents their general view of the transition process based on a political economy prospect.
41. Przeworski identifies the 'Chicago model' as that in which politicians only aim at being re-elected, while in the 'Virginia model' politicians are rent seeking. In Chicago, the original contribution to that type of model was that of Stigler (1975), although Olson (1965) had already formalized the point of view by attempting to demonstrate the lack of feasibility of collective action by large groups.
42. Bobbio, however, pointed out that the democratic principle of rejecting the imperative mandate

has always been violated in contemporary democracies, in which the corporative principle that says that politicians would represent private interest, tends to predominate. In this model, intermediation would be in the hands of state bureaucracy and not in those of politicians.

43. Przeworski (1995a, p. 8) makes this fact clear when he rejects the imperative mandate and also when he observes that the citizens may ignore what is in the public interest. Institutions should reward those governors and citizens acting on behalf of the public interest and penalize those who do not: 'Private agents have to benefit for behaving in accordance with the public interest and they must suffer when they act in a different way, and the same should apply to governors'.
44. See John F. Kennedy's book *Profiles in Courage* (1956) for a fascinating set of short biographies of American politicians who had that courage.
45. See Przeworski and Limongi (1993, 1997) on this aspect. These authors question a 'theory of modernization', which linearly relates development to democracy, and state that the emergence of democracy is not simply the result of development, but is related to the political actors' action in pursuing their own objectives. Notwithstanding, based on broad empirical evidence, they admit, avoiding total indetermination, that 'once (democracy is) established, economic restriction plays a role: survival possibilities of democracies are greater the richer the country is' (1997, p. 177).

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