

THE DEMOCRATIC CONSTRAINT IN PUBLIC MANAGEMENT REFORM

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Abstract. Since the last quarter of the twentieth century a new, social-liberal and republican state, is replacing the welfare or social-democratic state, while public management replaces bureaucratic public administration. Public management reforms, however, does not aim just at efficiency. Besides the economic, there is a moral and a democratic constraint. And the later has, eventually, precedence over the economic one as long as we may argue in rational terms but the final decision on public policies is political. In this new public management senior civil servants and the agencies they manage are more autonomous and more accountable. Increasingly, services that were directly performed by the state are contracted out with public non-state organizations. They conserve their professional character, but as long as they are supposed to take decisions in decentralized agencies, they are required to have republican approach to civil service.

In a world where capitalism became global, as democracy gets consolidated, public management reform becomes dominant in most rich countries while a new state is rising, in which the ‘democratic constraint’ will have eventually precedence over the economic one. Democracy also advances in a large number of intermediate developing countries, where officials face the same kind of trade-off. I don’t believe I must develop a long argument here to demonstrate that a ‘new’ state is emerging. In a world in which technology changes so fast, where the pace of economic development tends to accelerate secularly, and where economic and social relations become increasingly complex, political institutions are also supposed to change. The three political instances acting in modern capitalist societies – civil society, the state (organization and institutions) and government – are supposed to assume new forms, new roles, new ways of relating among themselves, and, so, of producing a new democratic governance.

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I will summarize my views on this new democratic governance in three propositions. First, the state remains committed to the economic and social roles that it assumed in the twentieth century, but, in an increasingly competitive capitalist system, the economic or the efficiency constraints requires that civil service get involved into public management reform. In the new public management that is emerging senior civil servants and the agencies they manage are turning administratively more autonomous and politically more accountable. Thus, a new state is arising because the state's organization is being required to change, to decentralize, and to contract out, in order to meet the demand for more efficiency. A public management reform is taking place and a new public management is emerging because senior civil servants are renewing themselves and taking up their own political responsibilities, instead of sticking with the semi-fiction that they constitute a neutral body just responding to elected politicians.¹

Yet, it was not only capitalism that became victorious in the twentieth century, it was also democracy. In this century, for the first time, all developed countries and an increasing number of developing countries were able to satisfy the minimum requisites to be considered a democracy, or a poliarchy.² Thus, my second proposition is that besides an economic there is a democratic constraint – the fact that all major decisions have to be taken politically – and that, although trade-offs will happen among the two constraints, eventually the democratic one will have precedence over the economic.

Third, besides the economic and the democratic constraints, we have to consider a moral constraint, which is not new but became strategic in modern democracies. In the authoritarian regimes in which bureaucratic public administration reform took place, an intrinsic contradiction existed. At the same time that bureaucrats were assigned a strategic moral role, their autonomy in protecting republican rights was taken away. In the new social-liberal and republican state that is emerging, senior civil servants' role in protecting the public patrimony against the capture of private interest increases as their autonomy augments.

¹ There is today a large literature on public management reform, that I originally called managerial reform (Bresser-Pereira, 1996, 1998). On the other hand, the new field came to be called 'new public management – NPM'. Given its origin in England, in the Thatcher years, NPM is often mixed up with the conservative, neo-liberal reforms, starting in the 1980s. Although this lecture is possible, since particularly in New Zealand reform took for some time an ultra-liberal vein, in the reform in which I was involved in Brazil (1995-1998), and in my writings on the subject, I always saw public management reform as part of progressive agenda.

² Robert Dahl (1971: 2-8) coined the expression 'polyarchy' to mean a "real world" concept of democracy, not an ideal one. He defined eight requisites for a polyarchy, that can be summarized by saying that a poliarchy is a political regime that assures the rule of law, freedom of expression, and the universal right to vote and be voted in regular and free elections, in which citizens choose who will govern in their name.

Demand for a more efficient state organization and for a more democratic polity come from within and outside the nation-state: from within, as democracies advance and citizens, in civil society, become more active and demanding; pressures from without, as globalization presses business enterprises to compete and requires national governments to support this competition. In this process, globalization makes countries more interdependent, but the nation-state remains the source of political power required to organize the interests of each given society. Citizenship rights only exist with the nation-state. In the past, society was organized in tribes, city-states, feuds, and empires. Since modern times, it is principally organized in nation-states or countries. Each nation-state is formed by the state and civil society – the later meaning the collection of citizens acting in political life outside the state apparatus, weighted by the power they derive from organization, knowledge, and wealth. In each nation-state we find a civil society and a state. The state is formed by an apparatus and by the state institutions or the legal system, and headed by a government. Institutions, beginning with the national constitution, define rights and obligations – the rules of the social game. In a simple model, politicians in the higher echelons would constitute the government, while civil servants would just take care of public administration. This model was never representative of reality, and it is still less in the new state. In this new state that is emerging, elected politicians and senior civil servants are involved in government and in public management – that is, in taking major political decisions –, and in efficiently implementing the decisions taken. Instead of speaking of public administration, that was bureaucratic and concentrated in the effectiveness of state power, we speak today of public management, that assumes state effectiveness and searches for state efficiency.

Citizens continue to derive his or her citizenship rights from the nation-state. Their civil rights will be warranted as long as state institutions affirm these rights. Their social rights will be better protected as long as the state organization is able to collect taxes and assure health care, basic education and a minimum income for all. Their political rights will be asserted as long as political institutions of the nation-state make governments more representative, more participatory, and more accountable. Finally, their republican rights, – that is, the rights related to the protection of the public patrimony – will be guaranteed as long as competent state institutions are combined with the required republican virtues of officials in government. In this paper I shortly discuss this new state that emerging, and the three constraints to which it and the politicians and civil servants that manage it are submitted: the economic, the moral, and the democratic constraints.

The Historical Forms of State

Concepts like nation-state, civil society, state, government, and public management belong to the political realm of society, while markets, business enterprises, and consumers are in the economic realm. Both spheres are inter-related, but it is important to distinguish them when one tries to see which are the

defining characteristics of the new state and of the new public management that is emerging. These characteristics will be essentially political, because they are the outcome of conflicts and compromises in which people are daily engaged. They embody decisions taken by citizens at the realm of civil society, and eventually, by politicians and senior civil servants at the realm of the state itself, in order to create and reform institutions, to organize the state apparatus, and to give shape to its public administration. Nevertheless, among these characteristics we will find one – efficiency – that is a central to economic reasoning, but that has also a major role in the new state and in new public management.

Politics is the art of achieving legitimacy and running the state, through the use of argument, persuasion, and compromise, instead of sheer force. While, in markets, producers and consumers try to maximize their interests, in politics, besides interests, it is also necessary to consider values. In markets there is a quasi-automatic competitive mechanism that allocates resources and distributes benefits with relative efficiency, while in the political sphere nothing is automatic or given: everything happens through decisions that are not ‘necessary’ since they involve choice, respond to interests, or refer to moral principles, and in democratic regime are the manifestation of the citizens’ will formed in public debate.

The historical transition from traditional to modern societies, from pre-capitalist to capitalist economies, took place in the economic and in the political realm – or, more broadly, in the social realm. Tribes changed into empires, or into city-states; later, the city-states and the feuds changed into modern nation-states. Within each society, political regimes changed, often in a cyclical way, from more authoritarian to more democratic forms of government, from monarchy to republic, from oligarchy to aristocracy. Thus, political regimes changed and political organization rose and fell in a cyclical way. With the emergence of capitalism and nation-states, political change gained direction. The direction of rationalization, according to Weber, the direction of self-sustained economic and political development, in my view: capitalism and democracy proved to be self-sustaining and able to generate its own continuous improvement.

I can only speak of a new state in relation to an old one. The state began authoritarian and patrimonial, in the sixteenth and seventeenth centuries: it was the absolute state in absolute monarchies. In the nineteenth century, it turned liberal and bureaucratic: the liberal-state imposed the rule of law and assured competition among business enterprises, but remained authoritarian as the poor and the women did not vote. (Observe that I am using the word ‘liberal’ in the European and Brazilian sense, not in the American one, where ‘liberal’ came to mean ‘progressive’, almost social-democratic). In the twentieth century, the state changed successively into the liberal-democratic and then into the social-democratic state (or welfare state), but remained bureaucratic. Now, the new state is heading to become social-liberal, and managerial.

Table 1: Historical Types of State and of State Management

State Institutions	State Management
Absolute State	Patrimonial Administration
Liberal State	Bureaucratic Public Administration
Liberal-Democratic State	Bureaucratic Public Administration
Social-Democratic (Welfare) State	Bureaucratic Public Administration
Social-Liberal (Democratic) State	Managerial Public Administration

When I say absolute state, liberal state, liberal-democratic state, social-democratic state, and social-liberal state, the adjective refers to the basic nature of state institutions or of the political regime. When I say patrimonial, bureaucratic, and managerial, I am referring to the way the state organization is managed. As state institutions change throughout history, the state organization and public management are also supposed to change. Instead of ‘state’ I could say ‘political system’, but political regime includes civil society. I could say ‘government’, but although the Anglo-American tradition often ignores the state, and take government as meaning the process of governing, the group of politicians and senior civil servants that at the top of the state perform this role, and also the state organization and institutions, I prefer to reserve that word only for the two first meanings.

With the rise of the absolute state, the question of the separation of the public from the private realm was posed. The liberal state ‘resolved’ the question through the constitutional and liberal revolutions (the Glorious, the American and the French revolutions), and by the civil service reform. With the former, the rule of law was established; with the later bureaucratic public administration replaced patrimonial administration. But the political regime remained an authoritarian. The liberal-democratic state, on its turn, overcame authoritarianism, but posed the question of social justice. The social-democratic state essayed a response to the social rights question and the problem of equality of opportunity, but proved inefficient in a world where economic efficiency becomes increasingly pressing. The social-liberal state remains committed with social justice, while it is a response to the inefficient supply of social and scientific services.

It is important to observe that these historical forms of state, or of political regime, should not be viewed as necessary and well-defined stages of political development, to all democratic countries. Nor that each form of state resolves the problem posed by the former. They are just a simple way of understanding how

governance evolved through time, taking as parameters Western European countries like France and England – so different among themselves, but with so many common features. Obviously the problems posed by the previous form were not resolved by the succeeding one, but were in some way faced, tackled.

The Rise of Democracy

When I refer to a new state, I am thinking in the process through which these institutions evolved in each nation-state through time. I am thinking in the cross-fertilizing process through which institutions created in one country are imported and adapted by others, since the Greeks and Romans established their republics. I am thinking in wars and revolutions that advanced or hindered economic development and political development. I am thinking in technological progress and economic transformations, which, coupled with political development, allowed for the rise of capitalism and, later on, of democracy – and, thus, to sustained and self-improving economic and political development.

Another form of viewing this historical process – in this case beginning with the Greek republics, is to see it as a process of transition from the city-state to the large modern state, from the *civitas* to civil society. In a first moment, in the Greek republic, a small community of citizens in a city-state – the *civitas* – constituted themselves government without the intermediation of a state apparatus; in a second moment, with capitalism, modern and large nation-states emerge, but remain authoritarian, led by political and wealth elites; finally, in a third moment, it becomes democratic, as a large civil society replaces the *civitas*. In the Greek republic the citizens took directly charge of government. Now, citizens, acting as private individuals, take care of their private interests, while hiring professional politicians and bureaucrats to constitute the state organization and take care of government, but this does not mean that they relegated politics to a second role. On the contrary, as they get organized and debate in civil society, they become increasingly influential.

The growth in sheer number of people participating of political entities involved a trade-off. As long as the number of people increased, the classical republican values, expressed into full participation in political life, lost terrain. Greek or Roman citizens were also soldiers, and derived their income mostly from the control of the state. In contrast, citizens in modern capitalist societies derive their income from their private activities. By paying taxes, they hire officials to perform the political and military roles. The separation of the public from the private was beginning.³ This evolution was ‘bad’ because it meant that the *civitas* – the community of citizens – had lost political significance, that politics was tending to become the monopoly of a class of aristocratic and bureaucratic officials. It was ‘good’ because it represented the end of patrimonialism – of the mixing up private and public patrimony.

³ See Cícero Araujo (2002).

With the rise of the liberal state, civil rights were protected, the rule of law was established, but we were distant from democracy, and farther away from social justice. The seeds of democratization, however, were there, as capitalism got affirmed as the dominant mode of production, and as political power ceased to have divine origins. The *civitas* did not exist anymore, but, as a kind of trade-off, a large civil society gradually emerged to replace it.

Two related historical facts opened room for democracy. On one hand, the rise of capitalism changed the basic way economic surplus is appropriated. It stopped to depend on the control of the state, to increasingly depend on the realization of profits in the market: authoritarian regimes ceased to be a survival condition for the ruling class. On the other hand, in the seventeenth century, when Hobbes formulated the revolutionary idea of the social contract, the divine legitimation of political rulers suffered a major set back. After Hobbes, Locke, Voltaire, Rousseau, the ideology that derived monarchs' power from divine will lose credibility. The social contract, first understood as an alienation of power the monarch, latter came to be just viewed as a delegation of power to political rulers. Who delegated political power was a new political entity: the people – an initially amorphous entity, which bit by bit gained form, as subjects turned gradually into citizens, and organized themselves as a civil society.⁴

Both historical facts opened room, in the late nineteenth and early twentieth centuries, to the consolidation of the first modern democracies.⁵ A second generation of democratic consolidations took place after World War II, in the defeated powers – Germany, Japan, and Italy. The transition to democracy in these countries was clearly delayed in relation to the level of economic development achieved. The war was a consequence of this backwardness, and eventually resolved it. A third generation of democratic consolidations is taking place now in the more advanced Latin American countries, like Brazil and Mexico. Note that I speak of democratic consolidations, not of democratic transitions, because often democratic transitions are artificial, are granted formally by authoritarian local elites, or imposed by foreign countries, while consolidations either are embodied in the economic and social tissue, or just did not happen.

The first liberal democracies that affirmed political rights were still in the consolidation process, in early twentieth century, but they were already changing, particularly in Europe and in Canada, into social-democracies – into democracies in which the state is supposed to protect social rights and promote economic development. The social-democratic state becomes dominant among developed

⁴ See Bresser-Pereira (2002).

⁵ The first polyarchies or modern democracies only appear the twentieth century as long as only in this moment the poor and the women acquire the right to vote and being voted. As Dahl (1989: 284) asserts, “although some of the institutions of poliarchy appeared in a number of English-speaking and European countries in the nineteenth century, in no country did the demos become inclusive until the twentieth century”.

countries after World War II. It was fully developed in Western Europe, Canada, and Australia; it remains incomplete in the United States, in spite of the wealth existing in that country; it is being attempted for long in Latin America, but without much success, given the prevailing low levels of economic development. Good governance, political development, is not directly correlated with economic development, so that a country that was so successful in economic terms as the United States, proves backward in social and political terms. But, on the other hand, the attempt to have better governance than the level of income per capita suggests is a continuous challenge that seldom developing countries succeed in overcoming.

The Persistence of Bureaucratic Public Administration

It is this (incomplete) social-democratic state that I am calling the ‘old state’. My first argument in this paper is that this social-democratic state is beginning to be replaced – not by the neo-liberal or ultra-liberal state, as a recent conservative wave led many to suppose – but by the social-liberal state. In the twenty-first century democracy will be neither liberal nor social-democratic, but social-liberal.

In saying that, my claim is that while democracy advances, the state will be more – not less – committed to social justice or fairness, and that, for the first time in history, the state will be concerned with delivering services in an efficient way. This is already taking place in more advanced countries and in Brazil: bureaucratic public administration changes gradually into public management; public managers, to be more efficient, become more autonomous; this increased autonomy has as trade-off increased political accountability; senior civil servants stop being viewed just as technicians accountable to elected politicians and start to be considered political men and women accountable directly to society.

Which factual evidences and arguments may I offer to substantiate these claims? Before answering this question I want to remark one fact: the persistence of bureaucratic public administration. Political development is supposed to be accompanied by changes in public administration. Governance is a dynamic process through which political development takes place, through which civil society, the state, and government organize and manage public life. It entails the correspondence in ‘quality levels’ of the political instances that form it. The way that people organize themselves and manifest their will in the public space, or, in other words, civil society’s strength, the quality of state institutions, the effectiveness of enforcing institutions, and the state apparatus’ efficiency are – or should be – highly correlated variables.

Yet, it is necessary to acknowledge that bureaucratic public administration, although inefficient, unable to cope with the sheer dimension and increasing complexity of public services, revealed more persistent than this hypothesis would predict. When the political regime changed from authoritarian

to liberal, the state organization duly changed from patrimonial to bureaucratic. But, when, afterwards, the political regime turned successively liberal-democratic, and social-democratic, bureaucratic public administration kept practically unchanged.

Civil service reforms, which changed state's administration from patrimonial to bureaucratic public administration in the nineteenth century, were major political (and technical) developments, which originated the substitution of the liberal (and constitutional) state for absolute monarchies. As the rule of law was firmly established, and the separation between public and private patrimonies was taking place, a professional body of bureaucrats was required. It was this bureaucracy that Max Weber, in the early twentieth century, so acutely defined and analyzed, having as pattern the pre-democratic, quasi-liberal German state.

Since the 1930s the liberal-democratic state started to change into social-democratic state, but change in the political regime again did not involve change in public administration. It remained bureaucratic. In fact, the transition from democratic to social-democratic state led to a reaffirmation and enlargement of the bureaucratic system. Instead of limiting itself to exclusive activities of state, new types of bureaucrats were hired, and bureaucratic public administration was extended to social and scientific services. It was extended also to public utilities, and, in certain cases, even to business enterprises, as the employees of state-owned enterprises came often to be viewed as civil servants.

The definition of civil service was radically broadened. In the liberal and in the liberal-democratic states, only magistrates, prosecutors, military, police personnel, tax collectors, auditors, and policymakers were viewed as civil servants. They performed exclusive state activities. In the social-democratic or welfare state, teachers in basic education, professors in universities, doctors and nurses in hospitals, musicians in symphonic orchestras, curator in museums, social workers in social assistance organizations, engineers and managers in public transportation and utilities, and janitors, office employees, and managers in all these organizations, and in the state organizations proper, all of them were considered civil servants. This change was particularly pronounced in countries such as France and Germany – where the social-democratic institutions advanced more.

The social-democratic state was a major political advance in relation to the liberal-democratic state. While the liberal-democratic state just assured civil rights, the social-democratic state warranted, in addition, social rights, that is, universal basic education, universal health care, a universal minimum income, a universal basic pension system. That is why, when we compare countries like France, Germany, and Canada, where the transition to the social-democratic state was complete, with the United States, that was unable to do that, we verify that income distribution is fairer and social rights are better assured in the former than in the later countries. In spite of the immense wealth existing in the United

States, almost 40 million Americans do not count with health care; around 13 percent of the American population is under the poverty line, against five percent in the social-democratic countries. If the quality of a political regime – or of democratic governance – is to be measured by the extent it provides the four basic political good valued by modern societies – social order, freedom, social justice, and well-being – there is little doubt that the social-democratic ones have a superior political regime when compared to the American one.

But it is often argued that, compensating injustice, the American economic system is more efficient than the social-democratic system: it would produce more wealth. I have deep doubts about this. It should be noticed that, since World War II, only in the last decade the American economy grew at a faster rate than, for instance, France and Germany. Yet, from this poor evidence some ultra-liberal ideologues derived the confirmation of what their ideological preconceptions told them: the economic superiority of the liberal in relation to the social-democratic state. It is true that excessive regulation of business and labor, in the social-democratic state, may reduce competition and represent a negative incentive to hard work. That is why the welfare state needs reform. But, as a trade-off, there is little doubt that in more equal societies, like the social-democratic ones, cooperation stimulates efficient work, and – what is more important – assures legitimacy to governments, that, consequently, are not constrained to adopt explicit or disguised populist policies to assure popular support.

The New Social-Liberal State

In this paper I am interested in the institutional changes that affect good governance. In bureaucratic public administration the major governance concerns were with social order, and administrative effectiveness. In the new state that is emerging, political stability and state effectiveness in enforcing the law are assumed as having been reasonably achieved: the major political concerns are now with democratic accountability, and administrative efficiency – it is to extend to public services the economic efficiency that markets assure to the production of goods and services, while maintaining their public character.

We saw that the social-democratic state enlarged extraordinarily the concept and the scope of civil service. Yet, this greater scope given to civil service proved inefficient, as it did not allow the use of the more adequate means to achieve the desired outcomes. To guarantee adequate public utilities and to assure social rights are legitimate roles of the state, but this does not mean that the state must provide both directly. We know how difficult is to achieve efficiency within the state apparatus, which is intrinsically more concerned with the effectiveness of state power.

In the case of public utilities the problem is being solved through privatization, that is recommended provided that the activity it not a natural

monopoly, nor involve large Ricardian rents.⁶ In this case they should remain state-owned and be run as private enterprises. In the case of the social and scientific services, that society should in principle fully finance, the problem is more complex. How should they be executed? The tendency is to the state to contract out the services with non-profit organization, and control them by a mixture of management contracts, managed competition, and social control mechanism.

The new, social-liberal state, that is emerging, is a response to the problem. It is not the ultra-liberal state that the new conservative or the new right dreamed of. It is not the minimum state that would just guarantee property rights and contracts. It is not even smaller than the old social-democratic state, if we measure the size of the state by the tax burden: that is, by state revenues in relation to GDP. Taken on this measure, the state's size does not tend to diminish: on the contrary, it tends to moderately augment, as education and health care costs tend to increase in relation to average costs.

This new state is democratic. Why to call it social-liberal? It is social because it is committed with social rights. It is liberal, because it believes in markets and competition more than social-democratic state did. Let me elaborate these two traces. The social-liberal state is social because it fully maintains the social commitments that the social-democratic state made. Why it does so? Not for normative reasons on my part, but by observing the electoral behavior in developed countries. What I verify is that their citizens continue to expect and require that the state deliver these social quasi-public services. Citizens may be individualistic, and certainly do not like to pay taxes, but they count with the state to guarantee their social rights. Why they do so? Is rational to do that? Would not be preferable to pay fewer taxes and leave these matters to each individual, as the ultra-liberal and conservative preach? This is not the moment for a full discussion of this matter. I just remark that the attempts to eliminate social rights did not get political support and eventually failed in democratic countries. The failure of the "Contract with America" in the United States, in the 1990s, is just an example of what I am saying. People may be individualistic, but they probably are not so individualistic as to accept that essential goods and services, as basic education, health care, a minimum income, and a basic pension system, depend just on their own income, on their own savings, or on their own private insurance.

The ideological debate between left and right, between progressive and ultra-liberals, will certainly continue, but the ultra-liberal wave that started in the late 1970s is over. The alternance of power between left and right political coalitions will continue to define democracies, but the return to nineteenth or early twentieth century liberal-democracy is out of question. If society's

⁶ Observe that most reforms in developing countries did not observe this condition, while in developed countries it was. To privatize competitive state-owned enterprise is not an ultra-liberal reform, to privatize a natural monopoly it is.

commitment to social rights will be kept up in the social-liberal state, how this form of state differs from the social-democratic state? Because the new state relies much more on markets, or on managed competition, than the social-democratic one. More than that, because the social-liberal state 'believes' in competition, that is not viewed as contrary to cooperation, while the social-democratic state rather counts with cooperation and planning than with competition.

This belief in markets and in competition expresses itself in two ways. First, in rejecting the idea of the state as a producer of goods and services for the market. The support to the privatization of competitive state-owned enterprises comes from this belief. Second, in affirming that non-exclusive activities of the state, like social and scientific services, that are not essentially monopolistic, are not supposed to be directly performed by the state: they should, indeed, be financed by the state, but performed competitively by non-profit or public non-state organizations.

I will discuss shortly the two points. State-owned enterprises are a typical characteristic of the social-democratic state. In the social-liberal state only natural monopolies may remain state-owned. Whenever competition is possible the state will be out. When competition is possible but imperfect, regulation will act as a partial substitute for competition. Thus the privatization process that we see in the world since the 1980s is a clear manifestation of the rise of the social-liberal state.

But the belief in markets and the adoption of privatization does not mean that in the social liberal state the state renounces its economic roles, in the short run, of assuring macroeconomic stability and toning down the economic cycle, and, in the long run, of promoting economic development. Contrarily to what expected ultra-liberals, for instance, privatization will not come together with deregulation. After its critics, the social-democratic state over-regulated the economy, opening room for rent-seeking. Thus, time had come to over-all deregulation. Or, this view is simplistic and mistaken. There is no indication that regulation will be reduced. It is true that, in some instances, regulation turned excessive, and must be contained. But in the new state that is rising, the general tendency will continue to be in the direction of more, not less, regulation. Because concentration of firms tend to make markets less competitive. And principally because, as science and technology advances and social and economic problems become more and more complex, markets alone are unable to offer adequate answers to the new challenges. Citizens require regulation to protect their health, the environment, the public patrimony, and competition itself. Good governance comes with better and more encompassing institutions, involving rather more than less regulation.

A second reason why the new state is not only social, but also liberal relates to the way it performs public services: the new state increasingly tends to contract out social and scientific services. This is happening for three reasons. On

one side, because the pressure for efficiency, or for cost reduction, turn stronger and stronger as the size of such services got larger and larger. Second, because demand for political accountability increase proportionally. Third, because, while efficiency is extremely difficult to be achieved when the state directly performs the service, it becomes relatively easier when the service is contracted out with non-profit organizations that compete among themselves. For that last reason, in the new state that is rising, only the activities that are by its own nature exclusive to the state, and so monopolistic, will remain within the state apparatus. Even in these activities, public management reform attempts to achieve efficiency, but it knows the restrictions involved. The managerial strategy is to develop some form of management contract where a strategic plan and performance indicators are defined. But it is not easy to define clear and precisely these indicators.

If the activity does not involve state power, managed competition, the creation of quasi-markets, is a much more efficient way of achieving efficiency and political accountability. It makes no sense to regard this activity as a state monopoly and to use civil servants to perform it. What makes sense, and is being increasingly adopted by advanced democracies, is the state contracting out non-profit competitive organizations to perform the social and scientific services. Services will be more efficient and citizens will have more choice. In the recent past, it was the realization that it was more efficient to contract out with business enterprises certain services that led the state to do so in relation to construction, transportation, catering, data processing, and communications. Since the 1990s, the state is increasingly contracting out social and scientific services with non-profit organizations, instead of performing directly these services.

Competition does not necessarily mean markets, and, for sure, does not require profits. We can have schools, universities, hospitals, museums, symphonic orchestras competing not for profit, as business enterprises compete, but competing for recognition, for the positive evaluation of experts, pairs, and citizens-clients. In the United States, and more recently in Britain, universities, for instance, are essentially controlled in this way.

When citizens get organized in the realm of civil society through NGOs, or citizens' committees, in order to control state agencies and contracted out services, we are speaking of social control. When management contracts are established and performance indicators defined, we have managerial control *stricto sensu*. When evaluation and comparison is possible, we have managed competition. When evaluators are the customers themselves, we can speak of a quasi-market.

Whenever some form of competition is possible, it works for higher quality and more efficient services. Managed competition will usually involve contracting out. Contracts may take many forms. They may be explicit or implicit. They always require transparency and evaluation by customers, pairs, or experts. The politicians and senior civil that are charged with the decision of

allocating public money for these services have to be as much accountable as the institutions that receive the money.

But what is important to remark is that contracting out and managed competition allow that organizations providing the services be more autonomous – that is, less controlled through classical bureaucratic procedures – and, so, more efficient. Additionally, they become more accountable to the society that finances them. More accountable because managed competition is a powerful control system: performance indicator and an incentive system emerge out of competition, from comparing the performance of competing organizations, instead of being arbitrarily decided. More accountable because, when services are provided by autonomous agencies, organizations and committees involved in social control get empowered.

Why the social-liberal state will contract out with non-profit organizations to perform social and scientific services instead of regular business enterprises? Essentially because, in the case of health care and education, non-profits are better fitted to deal with such crucial and delicate matters, involving central human rights. Business enterprises are made to compete for profits, while non-profit organizations – or, as I prefer to call them, public non-state organizations – are fitted to compete for excellence and recognition. And in social and scientific areas this type of competition is the one that matters. Although regulated by private and not by public law, non-profit organizations are ‘public’ because they are directly oriented to the public interest. Also, because they do not depend on the classical liberal principle that legitimates business enterprises: “if each one defends his own interests, competition in the market will automatically guarantee the public interest”. This is a crucial principle to understand the role of economic competition in capitalism, but an inadequate one when markets are imperfect, and still a more inadequate one when competitive criteria are not primarily economic. The legitimacy of organizations working in the social and scientific sector comes out of their commitment to values: to human values, to public values.

The Democratic Constraint

Public management reform became victorious in most advanced democracies, and is advancing in a few new democracies.⁷ In the former, democracy is probably facilitating the introduction of the new ideas, while in the latter, public management reform is part of the process of democratic consolidation. Modern societies seek administrative efficiency and democratic governance, but conventional wisdom considers them contradictory; a trade-off would exist between the two, if not in old, probably in new democracies. This is a false trade-

⁷ For a survey of the extraordinary of public management reform, and it is effectively changing public administration in the advanced countries, see Halligan (2001), Ingraham and Sanders, eds. (1998), Pollitt and Bouckaert (2000).

off. Public management reform is an institutional reform, involving a set of new institutions. These new institutions presuppose the existence of democracy, and, as long as they advance and turn reality, they contribute to the democratic regime's improvement.

Public management reform seeks to increase the quality and efficiency of public services. The political scientists and consultants working in this field tend to understand that this means to endow the state organization with improved rationality, and from this, they conclude that, in making choices, officials should use the economic or efficiency criterion as the major decision standard. In this paper I discuss and challenge this idea. Instrumental rationality, and the consequent economic criterion, is obviously important, but, in democracies, there is a previous and more important one: the democratic constraint. Economists often use the word 'constraint' to mean the limitations that policymakers face. So, there is a budget constraint, or a balance of payments constraint, for instance. I suggest to them, as well as to political scientists, when referring to public policies or to institutional reforms, to also think – and think positively – that there is a democratic constraint.⁸

Although the initial motivation for today's worldwide public management reform has been economic, the constraint imposed by efficiency is not the only one to guide it. There is also the democratic constraint: if we live in a democracy, the nature and extension of state intervention, the orientation and character of government policies and reforms depend on the will of the citizens. The efficiency constraint seems often to be the only relevant one. The logic of the more economical or 'more rational' use of resources, which became dominant with the emergence of capitalism, assumed a fundamental role in the contemporary world. The process of globalization, which characterized the late twentieth century, imposes a degree of competition on countries and businesses never before seen requiring of their respective states standards of efficiency never imagined. However, if this logic, which has the market and management as its main tools, is far from guaranteeing the desired efficient outcomes, it is even more far away from providing an acceptable criterion for the choice of ends and priorities of government action. An alternative and higher constraint in modern societies is the democratic constraint.

We live nowadays, principally in Europe and the Americas, in democracies. This was the great political conquest of the twentieth century. Now, in a democratic regime, the economic constraint – efficiency – cannot be sovereign. It will always be of the utmost importance, but the democratic constraint must prevail when collective action through the state is at stake. It is not enough that decisions are 'rational', i.e., choose the more adequate means to achieve the desired ends. They also must be democratic, i.e., they must respond to voters' demands. And to each constraint corresponds a quite different 'logic'. While an instrumental rationality presides over the economic constraint, public

⁸ On this subject see Stewart and Ransom (1994) and Cunill Grau (1997).

debate and the formation of consensuses are key elements when one faces the political constraint.

The political constraint is usually either overlooked or wrongly understood by public servants, economists and businessmen. They often suppose that the efficiency constraint is the only legitimate because they view it is the only 'rational' way making decisions. Thus, they understand political influence on public decisions not as a constraint, but as an obstacle. According to this approach, politicians would always be self-interested populists, if not worse than that. Instead of acting according to what is rational, they would be paying courtship to poorly informed voters, while attending interest groups pressures. Often, the democratic constraint is confused with populist forms of solving conflicts. Although such critiques may have a point, they contain an elitist and anti-democratic bias. If we chose democracy as the best way to, collectively, achieve our political objectives – order, freedom, justice, and well-being –, the first thing we have to do is to understand the rules of the game. Now, the first rule of the game in democracy is that the citizens, the voters, have the final word, but not necessarily reason. Reason may and will be used, but to argue for a given decision, not to decide. Thus, as long as we live in democracies, reforms will only advance if they have the support of society, of the citizens with the power to vote. Perhaps this difficulty in understanding democratic constraint is a result of the historically recent character of democracy. Even though we can talk of 'Greek democracy', this was an entirely different political regime from what we today understand as a democratic regime. The universal right to vote and be voted is a phenomenon of the twentieth century, just as the assurance of civil rights – of liberty and property – only became dominant in the nineteenth century. Wars and genocide marked the twentieth century, but, as a kind of trade-off, it was the century of democracy. Even in the more politically advanced countries, the democratic regime only became dominant in that century. In the nineteenth century one could speak of democracy as the political regime in Great Britain, United States and France, but what we really had were liberal regimes, not democratic ones. These were restricted and masculine democracies, where to have the right to vote and be voted, one had to be man and property owner. Only in the twentieth century was democracy generalized as a political regime: in the first half of the century, in developed countries and in the second half, in developing countries.

The political constraint precedes economic ones, to the extent that market and administration can only work well if state institutions guarantee property rights and contracts. When the political regime is democratic, the political constraint becomes decisive, since it turns the ultimate source of legitimacy. In Plato's guardians' regime, legitimacy could originate just in reason. In more realistic authoritarian regimes, divine grace, or just sheer force, could serve to legitimize power. In democracies, however, it is not the latter form of legitimacy that is unacceptable, the former is equally so. Does this mean that public management reform in democracies is less rational than it is in authoritarian regimes? On the contrary, one of the reasons democracy became the dominant

political regime in the twentieth century is that it assures better decisions than the authoritarian alternative. We may always have an ‘enlightened’ dictatorship, but few would today count on that. In democracies, the political process may be hindered by self-interest and all collective action pitfalls, but, as a trade-off, when interests are relatively neutralized, it allows for more competent decisions, which are the outcome of extensive public debate.

The Moral Constraint

If the democratic constraint is, historically, a new factor in determining government action, and shapes public management reform, the moral constraint is an old one. While bureaucratic or civil service reforms presuppose a liberal but still authoritarian regime, public management reform presupposes democracy. Liberal ideas guided the transition from patrimonial forms of domination, to capitalism, offering the ideological legitimization for the separation between state’s and the prince’s patrimony, while requiring the guarantee of property rights and contracts. For this separation to be complete, however, it was necessary to protect the state against nepotism and corruption. Civil service reform had this as a central objective. Through it, a corps of professional functionaries, chosen by merit, and endowed with stability in their work, would administer the state with the minimum possible autonomy, just applying the law. In this way, the bureaucratic public administration would assure morality. This approach made historically sense, because when most civil service reforms took place there were no democratic institutions, like a free press, an active opposition, and free and active citizenry, to control politician’s power. Therefore, bureaucrats, relatively free from politics, but with little autonomy in decision-making, were used for the protection of the state patrimony against corruption and nepotism. It was up to the bureaucrats to administer ‘by the terms of the law’, according to the principle of universality of procedures, without discretionary use.

Yet, there was an intrinsic contradiction involved. At the same time that bureaucrats were assigned a strategic moral role, their autonomy in protecting republican rights was taken away. The guarantee of public morality is the responsibility of the law, or more amply, of an institutional system both liberal and bureaucratic, based on strict and detailed norms, and on a system of division of powers, checks and balances, and internal and external auditing. It was also the duty of the bureaucrats, to the extent that these, supported by tenure in their work, would be able to defy corruption and the client-oriented nepotism of the politicians or their bureaucratic bosses. With this, however, the state and the public managers lost an important part of their control over the bureaucrats, who could use their stability as much to defend themselves from pressures, as not to work, not cooperate.

Public management reform does not deny the role of public morality control attributed to civil servants and to a whole system of division of powers,

or checks and balances, which was set up in the modern state to avoid corruption. It does not reject, either, the need for laws and regulations to help guarantee public morality. It states, only, that there is a positive correlation between autonomy of the public manager and efficiency, and a trade-off between autonomy and corruption. The greater the autonomy, the more decentralized and less concentrated are the actions. The more controls are *a posteriori*, by results and by administered competition, more efficient are public services; in compensation, the greater the risk of corruption and client-oriented. However, in this trade-off, the pendulum swings in the direction of more autonomy because democratic societies developed forms of *a posteriori* control of public activity that are effective in the control of corruption and client-oriented. Apart from bureaucratic mechanisms of external and internal control (auditing court, internal control systems), we have the democratic controls achieved by parliament, particularly by opposition parties, by formal and informal social control councils, and mainly the control carried out by the press. Because there are democratic mechanisms of control, or, in other words, because managerial public administration presupposes the existence of a reasonably well established democratic regime, it is possible to concede more autonomy to public managers. This greater autonomy results not only in greater efficiency, but ought also to propitiate an increase in the level of public morality. The behavioral presupposition behind this statement is that autonomy is not only a social mechanism motivating efficiency.⁹ It also stimulates respect for ethical values, as long as there is *a posteriori* system of control. In the moment that the public manager receives managerial autonomy and becomes accountable by results, it becomes much more difficult for his superiors, bureaucrats or politicians to justify client-oriented policies. They are formally incompatible with bureaucratic public administration, substantively in contradiction to autonomy and managerial responsibility.

Even if we have a cynical view of the human being, such as that motivated only by opportunistic interest, it is not difficult to perceive that when society gives him autonomy and responsibility, this triggers the achieving motivation existing in every human being, and he starts to have a mission. He tends to become more interested in demonstrating a good performance as much on the level of efficiency as morally. On the other hand, if, more realistically, we admit that the human being is also motivated by noble reasons, that public interest also can be a motivating factor for politicians and civil servants, the fact that we have a reasonable degree of autonomy and of corresponding responsibility, leads us to pursue social objectives with more zeal.

On the other hand, in relation to the problem of civil servant's tenure, the Public management reform reduces this stability, brings him closer to the private sector worker, in order not to pay the cost of unmotivated and disinterested functionaries, who work little or not at all, but who can not be exonerated. This can be done because the need to protect the autonomy of the state through

⁹ For the concept of social mechanism see Elster (1998).

stability of the civil servant diminished greatly, now that we have democratic regimes, the press is free, and the practice of dismissing civil servants for political reasons is socially considered unacceptable. While we did not have democracy, tenure of civil servants was necessary; when democracy is established, it can be made flexible, needing to be partially guaranteed for careers of state, integrally only for judges and public attorneys.

The New Management

I hope that the main features of the new social-liberal state that is emerging in the twenty-first century, and the political and moral, besides economic, constraints to which it is subject, are now clear. Compared with the social-democratic state, the social-liberal state will believe more in markets and in managed competition, but it will remain as much committed to the protection of social-rights. In the international economic relations, it will be less protectionist, but, since its power and legitimacy is originated within the nation-state, it will continue to be actively engaged in commercial and technological policies in order to protect national capital and national labor.

Globalization is making nation-states more interdependent, it is strengthening markets of goods and services, of capitals and technologies. Everyday markets take in new sectors of the economy, and deepen their control over old ones. But this does not mean that the political realm is diminishing or that political decisions are losing relevance. On the contrary, as society and markets become more and more complex, and civil society more demanding and able to exert social control, the strategic character of political decisions, and the need that they are taken by officials in government with more autonomy, increases.

We saw that a managerial response to this increasing complexity and interdependence involve always public managers to become more autonomous and more accountable. We can think also think in a more strictly political response to the same problem. In the new state, public officials will be required to be political and republican.

First, he or she will be more political. We are used to think in the senior public servant as a bureaucrat or a technician. He will continue to be so, if we mean by that a professional that possesses technical or organizational knowledge. But the idea of the neutral bureaucrat, who just executes the law, or that follows the policies defined by elected politicians – an idea that was central to bureaucratic public administration – does not make sense anymore. Peters, for instance, includes, among ideas that are “no longer truthful”, the presupposition of an apolitical public service.¹⁰ Among officials we can still distinguish elected politicians from senior civil servants, but all are politicians, all are policy-makers

¹⁰ Peters (1996: 15).

who directly participate in defining and operating the political institutions. When I say that senior officials are supposed to be more autonomous, I mean that they are supposed to make decision, to have some discretionary power – the discretionary power that classical liberalism and bureaucratic (administrative) theory abhors. As they role changes, they will have to substitute the ethics of responsibility for the classical bureaucratic ethics of discipline. They will be supposed to be accountable to society, as their role ceases to be formally technical to become ‘political’. In contemporary democracies elected politicians will continue to have the central authority and the major responsibility. They will continue to respond to citizens, who have the choice of not re-electing them, for the political process. But they cannot be made the only responsible for the enormous political power involved in the modern state. While elected politicians are engaged in partisan politics, and, although committed to the public interest, are also supposed to represent group or region interests, senior civil servants are not in political parties, and their commitment is only with the general interest. But senior officials share, with elected politicians, political power, and are normatively committed to the public interest as elected politicians are.

Second, the public manager as the politicians in advanced democracies will be supposed to be endowed of republican virtues. It is not enough that he or she be capable. He or she must also be democratic – committed to civil and political rights. He must be social-democratic – committed with social justice or with social rights. And, he must be republican –committed with the general interest, with the protection of republican rights. Republican rights are the rights that every citizen possesses that the public patrimony is not captured by private interests. If we think citizens’ rights in abstract terms, this kind of right is as old as citizenship. But if we think it in historical terms, as we are doing in this paper, republican rights were the last to emerge, to have a special attention from society. As Marshall showed, the first rights to rise were civil rights; in a second moment, in the nineteenth century, political rights were conquered; and, in the first part of the twentieth century, social rights got affirmed.¹¹ The emergence of republican rights in modern democracies only became a historical fact in the last quarter of the twentieth century, when the protection of the public patrimony – of environment and of the large budget expenditures – turned into a major political question. Concern with corruption and nepotism were old ones, but now attention was given to more sophisticated forms of privately capturing public resources. ‘Rent-seeking’ or the ‘privatization of the state’ began to be denounced, as it became clear that it was not enough to protect citizens against the abusive power of the state: it was also crucial to protect the state against powerful and greedy individuals.

Civil rights and liberalism spoke high for the protection of the individual against the state, republican rights and the new republicanism claim for the protection of public patrimony against mischievous individuals. Republicanism is old as Greece and Rome, but in modern social-liberal democracies a new

¹¹ See Marshall (1950).

republicanism, a new call for republican virtues in governing the state, became a central requirement.¹² Republicanism is not here to replace the rule of law, checks and balances, judicial review, parliamentary review, public auditing, and all the institutions establishing systems of incentives and punishments, or to replace managerial strategies of making the state organization more efficient and more accountable. Republicanism is here to add, not to subtract.

There is a new institutionalism that believes – like classical liberalism and bureaucratic administrative law believed – that what is required to govern is just a capable institutional system of incentives. The belief in the miraculous potentialities of the law and of the several forms of auditing – or of ‘horizontal accountability’ – is similar in the new institutionalism and in classical liberalism. Both share their belief in an independent and neutral civil service enforcing the law, although with different arguments. Classical liberal thinkers believed in the law because the main challenge that they faced was to establish the rule of law. The new institutionalists believe in institutions because they think that through them it is possible to establish the required incentive and punishment system.

Modern republicanism assumes the rule of law, and knows how important institutions and incentive systems are, but also knows their limits. And for that reason it counts with officials endowed with civic values, who are committed to the public interest. In doing so, republicanism is not being utopian, but just acknowledging that in modern democracies voters require politicians and senior civil servants endowed of republican virtues.

For sure, not all politicians and civil servants will conform to the political demand. But I believe that there is a major tendency in the direction I am pointing out, because democracy embodied in it the capacity of self-improvement. Citizens may sometimes seem desinterested in politics, but as they are more educated, count with more information, and know how crucial strongly their lives depend on good governance, they learned or are learning which are their citizens’ rights and obligations.

In this paper I may have, in some moments, taken a normative approach, but I was not dealing with utopian dreams. The social-democratic state, which, in the span of our lives turned old, was already democratic; the new social-liberal state that is emerging will be still more democratic. And citizens in civil society, as well as officials in government will be required to be actively liberal, social, and republican.

¹² See J. G. A. Pocock (1975) Quentin Skinner (1978, 1998), Philip Pettit (1997), Richard Dagger (1997), Newton Bignotto (2001).

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