


**Reforming
the State**

**Managerial Public
Administration in
Latin America**



edited by **Luiz Carlos Bresser Pereira
and Peter Spink**

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Managerial Public Administration
in Latin America

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LUIZ CARLOS BRESSER PEREIRA

AND PETER SPINK

Published in the United States of America in 1999 by
Lynne Rienner Publishers, Inc.
1800 30th Street, Boulder, Colorado 80301

and in the United Kingdom by
Lynne Rienner Publishers, Inc.
3 Henrietta Street, Covent Garden, London WC2E 8LU

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Library of Congress Cataloging-in-Publication Data

*Reforming the state : managerial public administration in Latin
America* / edited by Luiz Carlos Bresser Pereira and Peter Spink.

p. cm.

Includes bibliographical references and index.

ISBN 1-55587-374-X (alk. paper)

1. Latin America—Politics and government—1980—
2. Organizational change—Latin America. 3. Administrative
agencies—Latin America—Management. 4. Civil service reform—
Latin America. 5. Government productivity—Latin America. I. Bresser
Pereira, Luiz Carlos. II. Spink, Peter.

JL959.5.073R443 1999

352.3'098—dc21

99-24072

CIP

British Cataloguing in Publication Data

A Cataloguing in Publication record for this book
is available from the British Library.

Printed and bound in the United States of America



The paper used in this publication meets the requirements
of the American National Standard for Permanence of
Paper for Printed Library Materials Z39.48-1984.

5 4 3 2 1

Foreword

Fernando Henrique Cardoso

The global scenario in which we currently live is one that presents new challenges to societies and nations. We are experiencing a phase of world-wide reorganization, not only of the economic system but of the political system itself. In view of this phenomenon, nation-states must be restructured to enable them to face the challenges inherent in this current global environment.

It is imperative to ponder the risks and opportunities offered by the globalization process realistically and creatively, for only thus will it be possible to transform the state in such a manner that it will be capable of adjusting to the new demands of the contemporary world. This is an exercise that no government can shirk without placing its prospects of national development in jeopardy.

To reform the state does not mean to dismantle it. On the contrary, reform could never entail destruction of the administrative and political decisionmaking systems, much less lead to a lessening of the state's regulatory capacity or of its power to steer the process of change and to set its course. To change the state means, above all, to set aside visions of the past, visions of a paternalistic welfare state—a state that, due to circumstances, focused largely on direct intervention in production of goods and services. Today, all are well aware that the production of goods and services can and should be handed over to society, to private enterprise, with substantial gains in efficiency and lower costs to consumers.

The notion of a state that adapts to enable itself to face the challenges of the contemporary world must not be confused with the lack of a competent and effective government capable of setting a course for society or at least of heeding courses proposed by society that require more consistent political and administrative action; nor can it be seen as inertia in the

face of administrative systems built up previously in Latin American countries, systems that centered on corporatism and welfare or on direct government intervention in the production of goods and services.

There is no doubt that nowadays, in addition to this role of illuminating the nation's course and pointing out goals compatible with society's aspirations, the state must also focus on providing its people with such basic services as education, health care, safety, and sanitation. However, to successfully carry out this monumental task and to effectively meet society's growing demands, the state must be restructured. And to achieve such restructuring, it must adopt management criteria with a view to reducing costs, seek to enhance dialogue with society as a whole, define priorities democratically, and insist on results.

Many tend to confuse administrative reform with mere congressional approval of legislation that lends the state a more competent and more activist appearance. It is perfectly clear that congressional approval is essential to redefinition of the state's role, above all because many changes require amendments to the constitution. However, actually redefining the state to enable it to truly meet its contemporary goals is a long process. It involves the profound change of a mentality deeply rooted in practices that have crystallized concrete interests.

These practices and interests are not necessarily negative. Nonetheless, when the environment changes, persisting interests that cannot respond to the challenges of a new era do play a politically negative role. Such interests may in fact be altruistic or legitimate when viewed from a certain angle. But when we look at them from the wider view of society as a whole, we will see that they are no longer justifiable.

The state must yield to certain of society's pressures, but society must also learn to converse with the state in a manner suitable to the aims of the population. To carry forward this interaction between state and society requires leadership; it requires a gradual process of persuasion. Ultimately, in any democracy, legitimate power is that power sanctioned by the vote, by society's exercising its citizenship. Thus, neither bureaucracy itself nor those portions of civil society that have not passed the ballot test are empowered to lead changes. What they do have is an obligation to prepare for debate, to exert pressure on those who govern. But decisionmaking legitimacy must remain in the hands of those voted into power. This is the very essence of democracy, the essence of republicanism.

This means that here in Latin America we must prepare our administrations to overcome outdated bureaucratic models—to adopt management techniques capable of introducing the quintessential notions of quality, productivity, results, and employee responsibility into our culture of civil administration.

We are currently experiencing a moment of transition from a welfare and paternalistic administrative model—which later took a step ahead and

turned bureaucratic, in the Weberian sense of the word—to a new model in which a competent bureaucracy is no longer sufficient to achieve the proposed ends. Present requirements call for something much more complex: state administration that is not only efficient, but guided by social values and capable of communicating freely with the people. This transition is one of the great challenges of the contemporary world, one to which all state leaders must devote themselves if reorganization of government administration is to be achieved.

This transition will be neither possible nor feasible without the participation of government employees. Those who view the civil service as a focal point of resistance to change are mistaken. The civil service cannot be seen as a repository of the old, outdated, antiquated, and archaic; government bureaucracy includes numerous examples of competence and excellence, and these qualities must be encouraged so that they can serve as a model to the administrative structure as a whole. Reform will be successful only if it is supported by leaders within the civil service.

In this regard, I do not refer to the union leaders who are linked to the most harmful forms of corporatism, but rather to the opinion leaders who are willing to set aside any remaining traces of patronage, the spoils system, and corporatist favoritism that occur in certain areas of public administration. We must do away with the notion that civil servants are a privileged class. Actually, the privilege that civil servants do have is that of serving their fellow citizens and of receiving compensation in the form of admiration on the part of the society as a whole. Such admiration cannot, of course, be limited to a few words of commendation; it must also be expressed in terms of appreciation of civil service careers and better pay for civil servants. However, this cannot be accomplished overnight. Working conditions in the civil service will improve as a result of economic stabilization; the return to wage indexing championed by some would serve only to refuel inflation and penalize the poorest strata of the population. There is no other way for a country to grow than by increasing its productivity and thus its wealth while simultaneously ensuring that those who actively participate in building the nation enjoy a growing share of the benefits.

The need to reform is undeniable. It is clear that we must reappraise the work of civil servants and, ultimately, the work of the state itself. I am confident that the discussion in this volume will contribute in an important way to a deeper understanding of the major challenges that Latin American nations face as a result of accelerating economic globalization and advancement of the scientific and technological revolution. One thing is certain: we must achieve comprehensive public administration reform if we are to be in a position to face this gigantic challenge.

Preface

In the 1980s, a focus of concern among social scientists and government leaders was the crisis of the state—a state perhaps overgrown, captured by private interests, and at the same time losing its autonomy vis-à-vis the process of globalization of the world economy. In the 1990s, however, that attention turned to state reform, particularly the reform of public management, reflecting a recognition that the neoliberal approach—coordination of the economy according to a market focus and reducing the state to a minimum role—was not realistic, corresponding neither to the aims of society nor to the needs of national economies. In this context, the issue of reconstructing the state and reforming its civil service became crucial.

This book addresses the subject of state reform, starting from a basic hypothesis: the end of this century is marked by a new theoretical and practical framework for public management, a “managerial” approach that replaces the previous “bureaucratic” perspective. The managerial approach, also known as “the new public management,” starts from the position that contemporary democratic states are not merely institutions designed to ensure property rights and contracts, but rather are instruments for the formulation and implementation of strategic public policies for their societies, in both the social and the scientific and technological domains. In order to achieve its goals, the state must put in place modern managerial practices without losing sight of its eminently public functions. “Managing” differs from “controlling” almost as much as “making things happen” differs from “preventing things from happening.” This perspective, developed in corporate management, also applies to public management. It is not, however, the sheer transposition of idealized models of the corporate world; instead, it is the acknowledgment that the new functions of the state in a globalized world require new competence, new managerial strategies, and new institutions.

The chapters here were presented in an earlier form during a seminar held in Brasília in 1996, hosted by Brazil's Ministry of Federal Administration and State Reform and the National School of Public Administration (ENAP), and supported by the United Nations, the Latin American Centre for Development Administration (Centro Latinoamericano de Administración para el Desarrollo; CLAD), and mainly by the Inter-American Development Bank. The seminar allowed the exchange of experiences and the identification of trends in Latin America, comparing them with recent reform experiences elsewhere. During the seminar, other contributions were recognized and incorporated into the discussion, and these also are reflected in the book.

A foreword by Brazilian president Fernando Henrique Cardoso opens the book, just as he opened the seminar, recognizing both the need for changes aimed at a managerial administration and the challenges represented by those changes. Then Luiz Carlos Bresser Pereira, Brazil's minister of science and technology, introduces the themes to be debated, focusing on how to reconstruct and rethink the state in a global context.

In Chapters 2 and 3, Adam Przeworski and Donald F. Kettl discuss the goals and dilemmas of state reform. For Przeworski, the target of reform is to establish institutions that will reinforce the ability of the state apparatus to do what it has to do while preventing it from doing what it should not do. He asserts, from the "principal-agent" model, that a well-functioning government requires a bureaucracy that is effectively supervised by elected politicians, who, in turn, must be accountable to the public. Confronting neoliberal thinking, Przeworski concludes that, given such a system, the economy of a moderately intervening state would perform better than that of an economy coordinated solely by automatic market adjustments.

Kettl recognizes that the theme of reform is popular worldwide and that few governments have failed to try reform. Nevertheless, he points out and discusses two persistent and related problems: the search for ways to build states and public administrations that work better and cost less, and the issue of deciding what the state has to do and what it should not do. Very often, he recognizes, short-term tactics to reduce costs and limit activities hamper the achievement of long-term results, preventing the necessary focus on the core of government activities and public administration.

William Glade (Chapter 4) and Peter Spink (Chapter 5) analyze the subject of reform specifically from the perspective of the Latin American experience. For Glade, there are three ongoing, parallel processes of change in the region. The first one, democratization, eventuates from the strengthening of civil society, the role of which is increasingly important in terms of transmitting information, defining problems, and affecting the quality of the actors engaged in program implementation. The second

process—a consequence of economic restructuring—is growing liberalization and privatization. Finally, the need for new types of services to protect citizens, consumers, and the environment and to support the functioning of markets brought about the third process of change, the establishment of regulatory mechanisms and agencies. The initial responses of governments in the region to these changes are seen by Glade as positive.

Spink offers a longitudinal study of administrative change strategies in Latin America. He points out that the results of the major systematic reform programs have not been fully satisfactory (with a few notable exceptions), in contrast with the many experiences of more gradualist or incremental strategies. He also points out that, in spite of the relatively heterogeneous character of reform concepts and practices in the early 1960s, currently the region has a spreading homogeneous vision of state reform as an essentially technical issue. In this regard, he warns of the risk of disregarding the fact that reform issues are primarily political and also of the possible consequences of a lack of discussion of alternative strategies.

In Chapter 6, Bresser Pereira focuses on Brazil, highlighting the need for reforming or rebuilding the state, and presenting the basic outline of the reform efforts launched by the Cardoso administration. He maintains that state intervention, in addition to still being necessary in the domains of health, education, culture, and technological development, must also support national economies so that they may become internationally competitive. Whereas the neoliberal reforms removed the state from the economy, the social-democratic approach aims to increase and deepen the state's financial and administrative capabilities to implement government decisions.

A more efficient state, argues Bresser Pereira, is an imperative in the context of globalization, which has sharpened competition among countries. As a consequence, the bureaucratic model of public administration has become obsolete, and public bureaucracies are increasingly moving toward a managerial approach. Bresser Pereira proposes and describes in detail the establishment of new institutions—"executive agencies" and "social organizations"—to carry out necessary tasks under management contracts and with broad autonomy.

The implications of this constantly evolving domain of state reform are examined in the last chapter (Chapter 7) by Joan Prats i Català. Prats i Català points out the growing importance of new configurations around the subject of governability. All over the world, from 1950 to 1975, bureaucratic reforms geared to rational approaches of "administration for development" were emphasized, but beginning in the mid-1970s there was a gradual movement toward new approaches that emphasized the importance of public policies, of their effective implementation and evaluation. The complexity of democracy and of the interorganizational relationships within the public service makes political and administrative reform complementary;

thus, recent programs include support for structuring political parties and strengthening electoral processes. From this context emerges the broad subject of governability, which includes not only government and public administration, but also new forms of relationships with civil society.

* * *

Although all of the authors are optimistic regarding new public practices and the continuous presence of the state in the delivery of services, the book also reflects the general tenor of the discussion among the participants at the seminar—the doubt and disagreement as well as the differing political stands. Debate notwithstanding, however, the concept of a minimal, residual state vis-à-vis the market found little support. Whatever the participants' understanding of globalization—whether in purely economic or also in political terms—there was consensus that the demands for state efficiency and effectiveness with regard to both its internal and its external roles now go beyond the traditional scope of bureaucratic practices. Deepening the professional character of public administration and establishing competent and relatively autonomous bureaucracies are still priorities; but these bureaucracies must not retreat to the rational-legal model of administration based on centralization and the formal control of procedures.

According to all those present at the seminar, the ongoing reform processes in Latin American countries are admittedly complex. There are contradictions to be worked out, and it is necessary to take into account new partners in the debate. Increasingly, the inherent plurality of many Latin American societies will show its presence; reform processes involve multiple possibilities for action at both state and local levels. The transfer—either for reasons of belief or because of a shortage of resources at the national level—of activities from the national government to various elected local governments encourages and produces new forums for debate on the effectiveness of public management, encompassing not only different levels of government but also community organizations. The latter, which for years were some of the few available spaces for discussion of the relationship between public management and citizenship, acquire a growing and important role in the provision of social and scientific services by participating in a partnership between society and the state. Although the twentieth-century state tried to protect social rights by hiring state bureaucrats to provide social services directly, the state of the twenty-first century may guarantee those rights primarily by hiring public, non-state organizations that are more competitive, more efficient, and better controlled by society.

As this century ends, the deepening awareness of the need for more effective action is an essential characteristic in many areas and organizations, but in the public domain it has become an imperative. This book is intended to contribute to the debate toward that end.

Luiz Carlos Bresser Pereira
Peter Spink

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1

Managerial Public Administration: Strategy and Structure for a New State

Luiz Carlos Bresser Pereira

In the 1980s, following the end of the international debt crisis, the theme that caught the attention of politicians and policymakers all over the world was structural adjustment—fiscal adjustment and market-oriented reforms. In the 1990s, although structural adjustment remained a major objective, the emphasis has changed to the reform of the state and particularly to administrative reform. The central question now is how to rebuild the state—how to redefine a new state in a global world.

This change of focus definitely can be seen in Brazil. One of the major reforms to which the Cardoso administration is committed is administrative reform. Early in his first term, President Fernando Henrique Cardoso decided to transform the old bureaucracy that managed the civil service into a new Ministry of Federal Administration and State Reform. Chosen as the minister, I proposed adding administrative reform to the constitutional reforms, dealing with taxes, social security, and state monopolies, that were already defined as a priority by the new government. The immediate response of civil servants, intellectuals, and the press was highly negative. Yet after a few months, support emerged, coming from state governors, mayors, business executives, the press, and finally from the public. Suddenly administrative reform was considered crucial, demanded not only internally but also by foreign investors and multilateral financial agencies. The constitutional amendment was widely debated and sent to Congress in August 1995. Its passage was followed by the publication of a white paper (Brasil 1995) on the administrative reform—*Plano Diretor da Reforma do Aparelho do Estado*—proposing a change in Brazilian public administration from a bureaucratic administration to a managerial one. This change became a national issue.

What caused this new interest in the reform of the state, particularly of the state apparatus? What is the content of the reform? Is it merely part of

the neoliberal ideology or a necessary course for managing the contemporary capitalist state? What is the relation between the managerial strategy and the structure of the new state that emerged out of the crisis of the 1980s? These are some of the questions that I address herein, knowing very well that my answers are limited and provisory.

REFORM OF THE STATE AS A MAJOR CONCERN

There are many reasons for the increasing interest state reform is receiving in the 1990s. Most important, people realized that structural adjustment was not enough. Since the mid-1980s, highly indebted countries have engaged in fiscal adjustment, trade liberalization, privatization, and deregulation. The outcome was positive to the extent that the acute features of the crisis were overcome: balance of payments came under control, inflation rates fell everywhere, and countries recovered some creditworthiness. But growth did not resume. The neoliberal assumption behind the reforms—the assumption that the ideal was the minimal state, committed only to guaranteeing property rights, leaving to the market the full coordination of the economy—proved unrealistic. First, in no country is there political legitimacy for such a minimal state, not even if education, health care, and compensatory social policies are added to its role. People demand more from the state. Second, it soon became apparent that the assumption that state failures are necessarily worse than market failures was just a form of dogma. The limitations of state intervention are self-evident, but their strategic role in contemporary capitalism is so great that they cannot be ignored or eliminated, as neoliberal thinking assumes. As Adam Przeworski (1996: 4) observes, the neoliberal view, popular in the 1980s, that “even in the absence of ‘traditional’ failures, *markets are efficient* now appears dead, or at least moribund.”

In the 1990s, it became increasingly clear that the basic cause of the great crisis of the 1980s—a crisis that only the East Asian and Southeast Asian countries were able to avoid until the late 1990s—was a crisis of the state: of its monetary policy, its mode of intervention, and its bureaucratic form.¹ So, if the option of a minimal state is not realistic and if the basic factor underlying the economic crisis is the crisis of the state, there can be only one conclusion: the solution is not to let the state wither but to rebuild it, to reform it. Such reform will probably mean shrinking the state, limiting its role as a producer of goods and services and, to a lesser extent, as a regulator; but it may also imply increasing the state’s role in financing public nonstate organizations that will compete to provide social services and in promoting international competitiveness for local industries.

Reform of the state involves political aspects related to promoting governability—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—and economic and administrative aspects leading to improved governance—the effective capacity the government has to transform its policies into reality. Among the reforms designed to increase governance, the economic reforms that reduce the public debt and promote public savings, particularly fiscal adjustment and privatization, are the major reforms. Yet recently, administrative reforms of the civil service, to make it more compatible with contemporary capitalism, started receiving more attention.

The explanation is simple: people are becoming increasingly aware that bureaucracy is inconsistent with the demands that civil society places on governments in contemporary capitalism. People demand much more from the state than it can deliver, and the immediate reason for that gap is not only fiscal as James O'Connor (1973) pointed out, nor just political, as Samuel Huntington (1968) stressed.² It is also administrative. Economic and political resources are by definition scarce, but this limitation may be partially overcome by their efficient use by the state. When citizens cannot count on the market, that is, when resource allocation through the market is not feasible given its distorted character or incompleteness, a proficient public administration can reduce the gap between social demands and their fulfillment.³

There is, however, a broader reason for the interest in reforming the state and particularly public administration: the increasing relevance of protecting the public patrimony (*res publica*) from "privatization" or, in other words, from rent-seeking activities. The state is meant to be public, and so are public nonstate organizations (or nongovernmental organizations). Certain goods, such as a protected environment, are meant to be public. The protection of the state as long as it embodies the *res publica* is a basic right—one that could be called a "public right" and that began to be defined only at the end of the twentieth century as the latest in a long list of rights. For example, in the eighteenth century, Enlightenment philosophers and the British courts defined civil rights, which in the next century were incorporated by liberal (in the European sense) politicians in the constitutions of all civilized countries. In the nineteenth century, political rights, particularly universal suffrage for men, were defined and implemented in most countries by democrats. In the first half of the twentieth century, socialists defined social rights, which were introduced in the constitutions of all countries by social-democratic political parties.⁴

The emergence of the welfare state to enforce social rights and the increasing role the state assumed in promoting economic growth and international competitiveness in this century fostered an immense increase in the state as *res publica*. It also fed the greed of individuals and groups who would harness the state to their special interests. The privatization of the tax burden (the main form of the *res publica*) was now the main objective of rent seekers.

It is not by accident that almost simultaneously a Brazilian social-democratic political scientist first wrote about the “privatization of the state” (Martins 1978) and a conservative U.S. economist (Krueger 1974) defined “rent seeking.” They were referring to the same problem. If the historical realization of the need to protect the individual from an oligarchic state took place in the eighteenth century, and if ensuring the democratic rights of political participation and protecting the poor and the weak from the rich and the powerful occurred in the nineteenth century, the importance of protecting the public patrimony only became dominant in the second half of the twentieth century. These writers were acknowledging that it was necessary to protect the *res publica* and define another basic right—the public right that all citizens have—that what is meant to be public should indeed be public. In other words, this right guarantees that state property be available to everybody, instead of being the object of rent seeking, instead of being privatized.⁵

When the protection of public rights started to become a dominant concern in the world, three things became increasingly clear: the republic had to be refounded; the reform of the state gained a new priority; and democracy and bureaucracy—the two institutions created to protect the public patrimony—should be changed: democracy should be improved by becoming more direct and the bureaucratic public administration should be replaced by a managerial public administration.

PATRIMONIALISM AND BUREAUCRACY

Privatizing the state, or mixing the private and the public patrimony, was the defining characteristic of governments in precapitalist and predemocratic societies. Patrimonialism meant the inability or reluctance of the prince to distinguish the public patrimony from his private possessions. With the rise of capitalism and democracy, a clear distinction between *res publica* and private possessions developed. Democracy and bureaucracy emerged as the main institutions aimed to protect the public patrimony against the privatization of the state. As a political device, democracy guarantees civil rights against tyranny, asserts the political rights of electing and being elected, provides social rights to protect citizens against exploitation, and affirms public rights in relation to the public patrimony. As an administrative institution, bureaucracy uses the principles of a professional civil service and of an impersonal, formal, legal, and rational administrative system to combat nepotism and corruption.

In the nineteenth century, the emergence of bureaucracy as a replacement for the patrimonialist forms of administering the state represented great progress. This process’s main analyst—Max Weber (1922)—was