

# DEMOCRACY, SOCIAL STATE AND MANAGERIAL REFORM

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Democracy, the Social State and Managerial Reform are dialectically inter-related institutions. After the Second World War, democracy allowed workers and middle classes to increase their demands for social services, thus transforming the Liberal Democratic State into a Social Democratic State – a form of State in which relatively egalitarian collective consumption is important. As a result this implied a considerable increase in size of public spending and it subsequently became clear that bureaucratic administration, which merely proposed making State actions effective, was inefficient. The Managerial Reform that emerged in the 1980s was a response to the demand for greater efficiency in supplying public services for collective consumption and served to legitimize the Social State.

Since my first works (BRESSERT-PEREIRA, 1998; 2000) on managerial reform of the State, I have stated that this happened due to the large growth of State after the Second World War. In comparison, while in the Liberal State of the 19th century the tax burden was around 5% of GDP, in the Social Democratic State of the end of the 20th century this had already reached almost 40% in developed countries.

This transition from bureaucratic

administration to managerial administration that started in the mid-1980s was in response to the need for greater efficiency, or reduced costs, in the new social and scientific services that the State was beginning to supply. Here I complete this analysis to indicate that the inverse is also true: managerial public administration is a factor for politically legitimizing the Social State; in doing so it neutralizes the neoliberal attempt to reduce the social and scientific services provided by the State.

## THE SOCIAL STATE

The four political objectives arising out of the formation of the modern State are freedom, wealth or economic well-being, social justice and the protection of nature. These objectives, added to security, a previous characteristic of the old State, correspond to four ideologies that resulted from the Capitalist Revolution. Therefore, individual freedom corresponds to liberalism; wealth, or economic growth, to nationalism; social justice to socialism; and the protection of nature to environmentalism. These objectives and their respective ideologies largely reinforce one another, but are not fully

compatible. That is why democratic societies are pragmatic, view us in a moderate or reasonable way and may thus assume the commitments necessary to make their combined achievement feasible.

In order to achieve these objectives, the State is historically divided into two: the State as a political regime or a constitutional-legal system; and the State as public administration, or as an organization that guarantees the constitutional-legal system. In the contemporary world, the State as a political regime has assumed the form of the Social-Democratic State, and as an organization, that of the Managerial State. To govern is to assume the commitments necessary for reaching the majority, define laws and public policies and take strategic decisions involving public and national interest – to govern is to improve and guarantee the State as a political regime. But governing is also managing the State organization; it is choosing those who will be mainly responsible for introducing it; it is detailing laws and policies and putting them into practice; it is constantly improving the State machinery in such a way as to operate public services with quality and efficiency – it is to turn the State into a Managerial State.

In the 19th century, the State as a constitutional-legal system or political regime in rich countries corresponded to a democracy of the elite (also called Schumpeterian) - the Liberal-Democratic State. The transition from the Liberal to Democratic State advanced in the most developed countries at the turn of the 20th century as the last requirement for formal democracy (universal suffrage) became real.

In the mid-20th century, democracy based on public opinion began, as voters started becoming more interested in politics, public opinion polls began measuring their preferences, and a growing number of political advocacy organizations started intervening in the process of formulating and introducing laws and public policies. This greater political activism of voters led to an increase in social demands and consequently in social and scientific services provided by the State, which began to assume new functions, protecting both work and the worker.

It was then that the transition from one form of democracy to another occurred and the Liberal-Democratic State was transformed into the Social-Democratic State. While in the democracy of the elite, the latter have sufficient power not to let themselves be influenced by voters when being in power, in a public opinion democracy trade unions and social-democratic parties become stronger, and the political elite is constantly obliged to listen to public opinion voiced by voters with political demands.

In this new form of State, there would be an indirect increase in salaries resulting, on one hand, from labor laws that protect workers and, on the other, from a strong expansion in the social and scientific services provided by the State. The Social State, which became dominant in developed countries after Second World War, was the result of this commitment of

democratic regimes to pursue, with reasonable degree of success, the five objectives of State – security, freedom, economic well-being, social justice and the protection of nature.

## NEOLIBERAL IDEOLOGY

In the 1970s, as a reaction to the Social State, a radical, liberal ideological wave – neoliberalism – arose. With its market-oriented reforms, neoliberalism gained strength over the next twenty years and sought to change the nature of the State as a constitutional-legal institution.

This ideology preached maintaining the objective of security, gave absolute precedence to freedom and subordinated the other three objectives to economic liberalism by promoting a reduction in size of the State. It therefore proposed transforming the two forms that the State had assumed over the previous 50 years – the Social State, in developed countries, and the Developmental State in developing countries – into its main adversaries.

By attacking the Social State, neoliberalism was explicitly trying to reduce size and social functions of the State with the implicit objective of weakening it. Neoliberal theory repeated neoclassical and methodological individualism, according to which only small groups have the actual capacity to take collective action. It therefore denied the State its own main capability – that of being instrument of this action. It tried to go back in time to the Liberal State of the 19th century, an undemocratic State in which middle class had greater power than today in the Democratic State. In the Liberal State, civil rights were guaranteed, but social or even political rights were not; and because it opposed universal suffrage, there was no democracy.

This was a reaction to the new problems faced by the central capitalist system in that decade: a reduction in the rate of growth in the USA and in Great Britain and a decrease in the rate of companies' profit. The causes of these two phenomena, both related to greater power achieved by trade unions in the 1960s, were an increase in real direct and indirect salaries over the increase in productivity and an increase in indirect salaries, expressed both in labor rights as well as in the expansion of social services as provided by the State.

The neoliberal offensive reproduced the classic class struggle – in this case the initiative started with the rich – at the same time it translated into a need for capitalism to re-establish profit rates. The two ruling classes – the capitalist, or middle class, and the professional, or techno-bureaucratic – sought to increase their income, profits, earned interest of businesspeople and renters, and the wages and bonuses of top professionals, who control technical, organizational and communication knowledge, respectively. This became clear, for example, with the reduction in the progressive rate of income tax that occurred in almost all countries after the neoliberal offensive.

In economic and social areas the State is not, as the neoliberals suppose, merely a type of necessary evil in contrast to an intrinsic good, which is the market. Historically, it is the collective action instrument, par excellence, of the nation. It is the instrument that every nation's society uses to achieve its five political objectives. It is the major institution in any society. The role of this institution is to authoritatively regulate and coordinate social actions of all types. It is the institution which, on the economic level, regulates another institution-mechanism of competition – the market – by coordinat-

ing production and the distribution of income. Societies continue to rely fundamentally on the State for achieving their political objectives, while they rely on the market to promote the efficient allocation of resources to achieve economic development, but even for this they know they need the State to correct the failures of the market and promote the accumulation of capital and technical and scientific progress.

Neoliberal ideology reached its peak at the beginning of the 1990s with the collapse of the Soviet Union and it has been in decline since the beginning of this millennium. This crisis, which translates into a decrease in the ideological hegemony of the great power responsible for publicizing neoliberal ideals, the USA, derives, on the one hand, from the failure of the neoliberal reforms to achieve economic development in Latin America and in Africa, where they were more insistently adopted and, on the other, from the defeat of the USA in the Iraq war.

The symptoms of this decadence are the election of nationalist candidates and those from the left in Latin America and the failure to destroy or even reduce the Social State in rich countries. Even in the USA and England, the cradle of neoliberalism, there has been no reduction in the State.

What is the reason for this failure? Neoliberalism, which was turned upside down by the global financial crisis of 2008, never managed to convince the citizens of old (and also new) democracies to abandon, or at least put on the back burner, the State's attributed objective of guaranteeing social rights. Since 1980, even though more flexible labor contracts have led to some reduction in labor protection laws, workers, in compensation, have obtained a greater guarantee of receiving unemployment benefits, have managed to get State social services increased, particularly health services,

and have assigned a new mission to the Social State: to protect the environment. As a consequence, the State's social and scientific expenses have increased instead of reducing.

## MANAGERIAL REFORM

In Great Britain, in the second half of the 1980s, in the midst of this wave of ideological neo-liberalism, Managerial Reform of the State appeared on the scene – this was the second major reform of the modern State, also called Public Management Reform. It was inspired by the management strategies of private companies and its theory was called New Public Management; in other words, a series of ideas that were developed as from the end of the 1980s, which sought to make public administrators more autonomous and responsible and to further decentralize agencies providing social services.

Bureaucratic public administration was appropriate for the Liberal State of the 19th century, when it limited itself to exercising policing and justice functions; in this period, the tax burden only increased in times of war. The Liberal-Democratic State was small in size and bureaucratic public administration still applied. With large increase in the size of the State, the inefficiency of bureaucratic public administration became increasingly clear.

Managerial Reform came about as the administrative consequence of the consolidation of the Social State and, at the same time, as the instrument and fundamental factor of its legitimization. The Social State can only have been thought up and established because bureaucratic public administration provided a minimum level of efficiency, which made it economically viable. However, as social reforms advanced it became clear that this

minimum level was insufficient. The increase in the cost of State services imposed the adoption of Managerial Reform. This imposition, however, was not just fiscal, but also political. In order for the Social State to remain legitimate when faced with this neoliberal offensive, it was necessary to make its actions substantially more efficient; it was necessary to proceed with Managerial Reform.

The Social State implies making the supply of education, health and social welfare services collective, or public, and making their consumption collective instead of individual. In order to make these free and equal-for-all services feasible the State needed to be capable of offering them in a way that was not only effective, but also efficient. Bureaucratic administration had already revealed itself to be effective, but it became clear that as the dimension of State social services increased it was not effective enough. It was necessary to control the cost of services carried out directly by statutory civil servants, because it was proving to be far too high.

These costs were a reflection not only of the greater volume of services provided, but also of their embedded inefficiency, due to inflexibility of bureaucratic administration. The inefficiency of public bureaucratic administration became a threat to legitimacy of the Social State and, as a consequence, it provided an opportunity for an attack on neoliberal ideology.

Neoliberal ideology stated that private supply and consumption were intrinsically more efficient than public supply and collective consumption. However, notwithstanding the great pressure of neoliberal hegemony at the time, society continued to demand public services – it continued to prefer collective consumption, which translated into free, or almost free, social and scientific services, and contin-

ued to support a state social welfare system that guaranteed basic income to people.

The neoliberal argument that public consumption could be advantageously substituted by private consumption was not accepted by society. The continuous demand of citizens for collective consumption left no doubt. It was not enough, therefore, to argue in favor of the Social State purely based on this particular demand. It was also necessary to change the conditions under which services were supplied; it was necessary to show that the State was using tax funds well; that tax payers were not “throwing good money after bad” – a typical comment made by opponents of the Social State.

By modifying the way service supply was administered, Managerial Reform was the response to this challenge. It (1) makes managers of services responsible for the results, instead of being obliged to follow rigid regulations; (2) it rewards civil servants for good results and punishes them for bad ones; (3) it provides services that involve the power of the State by means of executive and regulatory agencies; and – most important of all, (4) consumption remains collective and free, but supply is transferred from the social and scientific services to social organizations, in other words, to non-state public providers that receive funds from the State and are controlled by a management contract. With these four characteristics – particularly the last – public authorities guarantee social rights, but transfer their provision, or supply, to quasi-state social organizations.

As they arose at a time when the neoliberal ideology was gaining space and in a country under a neoliberal government, these new ideas were called neoliberal; depending on the author, they indeed were. In fact, Managerial Reform is compatible with

both governments of left and right, but by making social and State scientific services efficient, it politically legitimizes the Social State.

The adoption of Managerial Reform by political parties, regardless of their ideological leaning, is not surprising, because it is the second historical reform of modern State. This reform occurred to cope with a Social State that was very much larger in terms of employee numbers and public expenditure. It started with the advances achieved by the former, but its objective was no longer just to make State action more effective, but also to make it more efficient in the social and scientific areas, in which a large number of workers are employed in activities that are not exclusive to the State.

As this reform is necessary when the State is transformed into a Social State and, from the administrative point of view, ceases to be a Bureaucratic State to become a Managerial State, its introduction becomes an issue of time and quality. Each country either moves towards carrying out reform or lags behind and has to grapple with the costs of its tardiness; and it either introduces it competently, or in an incorrect and confusing way.

### **EXPERIMENTS IN INTRODUCING MANAGERIAL REFORM**

Legitimization of the Social State by means of Managerial Reform can be observed in countless cases. One example occurred in Great Britain – a laboratory for neoliberal ideology during the Margaret Thatcher government and, at the same time, the country in which Managerial Reform originated. Tony Blair became prime minister in 1997, after almost 20 years of neo-liberal governments. Even though the Labor Party criticized Reform when they were in opposition,

when they came into power they not only maintained it, but extended it. At the same time they increased the tax burden to improve the quality of health and education services. As a result, they made the administration of these services more efficient, which was a fundamental argument used by Blair to legitimize his social policy, which increased the size of State by raising both public expenditure and tax burden. Margaret Thatcher was not successful in abolishing the Social State; the most she had managed was to not increase tax burden. Tony Blair changed direction and went further in the direction of the Social State by increasing the collective consumption of social services while he tried to transfer the supply of these services to a state-run company under private law. In this case, Managerial Reform was essential so that the Social State could thus be strengthened.

In 1995, when Managerial Reform was launched in Brazil, it was also criticized as being neoliberal. Today, however, these accusations have been almost forgotten in both Europe as well as in Brazil, because it has become clear that its first consequence was to strengthen the State itself and not weaken it, as neoliberals aimed to do. The mistake made of linking the Managerial Reform of 1995 with neoliberalism became evident from the fact that the basic directives of the Master Plan for the Reform of the State continued to be introduced at the federal level and in many States and municipalities, regardless of political orientation of the respective governments.

A central characteristic of Brazilian Managerial Reform was the distinction between activities that were exclusive to the State, which involve State power, and non-exclusive activities, which must be carried out by non-state-owned public organizations.

These social organizations guarantee greater flexibility and administrative efficiency. The results achieved by new hospitals in the State of São Paulo, all constituted as social organizations, and are defining indicators of this.

Two other significant experiments in Brazil are worth highlighting: one in Fernando Henrique Cardoso (FHC) government, with SUS [Single Health System – Brazilian National Health Service] and the other in Lula government, with the Family Benefits Program. When the first FHC term in office began in 1995, the Single Health System, created by the Constitution of 1988 to guarantee universal right to health services, was in crisis. It had not even managed to establish a funding system for SUS and the hospitals involved were offering deficient services and were frequently involved in accusations of corruption. The rules that regulated the services were unable to cope with the problem.

But at the end of 1996 a major managerial reform of SUS began, based on Basic Operational Regulation (NOB) 96, at the same time that funding sources for services were being defined. Today, SUS is a universal health system that satisfies a basic right of citizenship, offering reasonably good quality at very low cost (less than R\$ 2 per person/day). The secret is, on one hand, the great mobilization that occurred when it came to defining and introducing SUS, and in social control exercised by citizens as a result, and on the other hand, the shape of its managerial administration, which distinguishes service supply from demand and gives municipalities a much smaller role in contracting with hospitals that provide the services.

A similar phenomenon is occurring with Family Benefits in the gov-

ernment of Luiz Inácio Lula da Silva. Initially, the idea was to distribute basic food hampers in a program called Fome Zero (Zero Hunger). However, it soon became clear that this program was badly formulated and administered. It was decided, therefore, to combine and managerially administer various grants in money and kind that had hitherto existed, call them all Family Benefits and considerably increase their reach. The result was positive. While the Zero Hunger program had been object of permanent criticism, the Family Benefits program has proved to be effective in serving the needs of the truly poor at low cost. There is undoubtedly criticism that this program does not encourage people to work and is narrowly focused, instead of being universal. There is, however, no doubt whatsoever that public funds are being used in an efficient way and effectively attend the needs of socially excluded families.

Although representatives of Partido dos Trabalhadores (Workers Party) were critical of Managerial Reform while they were in opposition, Lula Government has been adopting many of its principles. The use of managerial techniques in managing the Family Benefits program and in the reform of the welfare system, as well as the demand from the Ministry of Education that federal universities which adopt the Support for Federal University Restructuring and Expansion Program (REUNI) prepare strategic plans, are two indications of this fact.

## CONCLUSION

Between Social State and Managerial Reform we have, therefore, a dialecti-

cal relationship: the constitution of a State, which is also called Welfare State by implying a large increase in State organization, demands a more efficient management. The resulting Managerial Reform, by contributing to this greater efficiency, or cost reduction, has an important role to play in legitimizing the State actions, with the aim of offering collective consumption services that, by their very nature, are more egalitarian than services paid individually by those being serviced.

Managerial Reform grew out of the pressure for greater efficiency, or reduced costs, that followed the transformation of Liberal-Democratic State into Social-Democratic State. On the other hand, by signifying the transition from Bureaucratic State to Managerial State from the administrative point of view, it proved to be a fundamental instrument of modern societies for neutralizing neoliberal ideology that, by making the provision of public or collective social services more efficient (although never as efficient as we would like), sought to reduce the size of the State insofar, as it legitimizes the Social State itself and guarantees it to be strengthened in the future.

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