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PERSPECTIVE

Managerial reform and legitimization of the social state

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This paper lists three new historical facts after the Second World War: the emergence of the welfare or social state in the 1940s, its rejection by a rentier and financier neoliberal ideology that becomes dominant from the 1980s, and the formulation and adoption of the managerial reform of the state as a way to legitimize the social state against the attack that it was suffering by making its universal social services more efficient. The 1995 Managerial Reform of the State in Brazil was formulated and has been adopted according to this logic.

Keywords: social state; managerial reform of the state; political legitimacy.

Reforma gerencial e legitimação do estado social

Este artigo relaciona três fatos históricos novos após a Segunda Guerra Mundial: o surgimento do estado social ainda nos anos 1940, sua contestação por uma ideologia neoliberal rentista e financista que se torna dominante a partir dos anos 1980, e a formulação e adoção da reforma gerencial como uma forma de legitimar o estado social frente ao ataque que estava sofrendo ao tornar mais eficiente a provisão dos seus grandes serviços sociais. A Reforma Gerencial do Estado de 1995 no Brasil foi formulada e vem sendo implementada de acordo com essa lógica.

Palavras-chave: estado social; reforma gerencial; legitimidade política.

Reforma gerencial, y legitimización del estado social

Este artículo enumera tres nuevos hechos históricos nuevos después de la Segunda Guerra Mundial: el surgimiento del estado de bienestar o social incluso en la década de 1940, su critique por una ideología neoliberal, rentista y financiero, que se convierte en dominante desde la década de 1980, y la formulación y adopción de la reforma gerencial pública que hacia la prestación de sus grandes servicios sociales universales más eficiente, y, así, legitimaba políticamente el estado social frente al ataque que sufría. La Reforma Gerencial del Estado de 1995, en Brasil, se formuló y está siendo implementada de acuerdo con esta lógica.

Palabras-clave: estado social; reforma gerencial; legitimización política.

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1. INTRODUCTION

Democracy, the Social State and Managerial Reform are dialectically interrelated institutions in that they are self-reinforcing. Democracy becomes a reality at the turn of the 20th century, the Welfare or Social state is created after the Second World War in these same countries, and the Managerial Reform of the state begins in the late 1900s, not only in rich countries, such as the United Kingdom and Australia, but also in middle-income ones like Brazil and Chile. This reform was implemented starting in the 1980s due to the major growth of the state apparatus that begins with the implementation of the Social State. While under the 19th century's Liberal State the tax burden, which is a good measure of the size of the state, was at around 7% of GDP, in the 12th century the tax burden was around 40% in developed countries, with the exception of the United States. The transition from bureaucratic to managerial administration, which began in the mid-1980s, was clearly in response to a need for increased efficiency or reduced costs of the major and universal social services of education, health and social security that the state had begun to provide. In this paper, I add to the analysis to show that the reverse is also true: managerial public administration is a factor for the political legitimization of the Social State and, as such, neutralizes the invariably intense efforts of the rich to lower their tax bill by reducing universal social services. Therefore, a dialectic relationship exists between the Social State and Managerial Reform: constitution of the Social State, by implying a massive increase in the size of the State organization, requires more efficient management of this organization; in turn, the resulting Managerial Reform, by contributing to this increased efficiency or cost reduction, plays an important role in the legitimization of the state's actions intended to provide collective consumer services that are by nature more egalitarian than those paid for individually by those served.

The four political goals that emerge with the formation of the modern State include liberty, wealth or economic welfare, social justice, and protection of nature. These goals, which nations aim to achieve by means of policies for which the respective states are the main instruments, correspond to the four ideologies that came into being with the Capitalist Revolution[1]. Therefore, individual liberty corresponds to liberalism; wealth or economic growth corresponds to developmentalism; social justice corresponds to socialism; and protection of the natural environment corresponds to environmentalism. These goals and their respective ideologies are largely mutually reinforcing, but not entirely compatible. In addition to the former political goal of security, within the framework of democratic regimes, advancing toward these four objectives means progress or human development.

2. THREE HISTORICAL FACTS

Soon after the end of the Second World War, three new and far-ranging historical facts occur: the appearance of the Social State, immediately after the war, the hegemony of neo-liberal, rentier and financier capitalism starting in the late 1970s, and the beginning of the Managerial Reform of the state in several countries.

[1] By Capitalist Revolution I means the process of profound social transformation that begins with the appearance of the bourgeoisie and mercantilism, and ends in each country, beginning with England, when a people becomes a nation, builds a State, and carries out its Industrial Revolution.

The Social State emerges post-war from the optimism generated by the victory against Nazism, the relative success of the Soviet Union within the framework of a regime that was still regarded as Socialist at the time, and the increased power of workers' unions and Social Democracy parties. Given these demands, the solution that liberal democracies found was to set up major and universal social services for education, health and social security, which are significantly more efficient at raising the people's living standards than mere real wage increases. We then watch the transition from liberal democracy and the Liberal State to a democracy of the elites, and, after World War II, to social democracy and the Social State, which was also a Developmental State, given that the state reassumes an important role in fostering economic development.

Then came the Golden Years of Capitalism, which, as seen in Adam Przeworski (1985), Stephen Marglin (1990) and Andrew Glyn (1998), were the result of a *compromise* between capital and labor — was a means to successfully pursue the four political goals. In the Social State, wages increased indirectly through labor laws that protect workers, on the one hand, and through a massive increase in social and scientific services provided by the state, on the other. More broadly, democracy changes its nature. While under the democracy of the elites (the first historical form of democracy, emerging immediately after the universal suffrage), which we may also call Schumpeterian because it was Schumpeter who best described it, the elites have sufficient power to, while governing, not let themselves be influenced by voters; in the public-opinion democracy that follows it, economic elites remain dominant, and political elites are forced to listen to a public opinion made up of voters with public policy demands.

The state then proves that it is not, as Liberals assumes, a necessary harm, because it ensures private property and enforces contracts, as opposed to a good-in-itself state, which would be the market identified with freedom. This is nonsense that flourishes in the neoliberal years of capitalism. Historically, the state is the par excellence instrument of the nation's collective action. It is the instrument that each national society uses to achieve the four political goals listed above in addition to security, or public order. The state is the institution that, in addition to regulating the markets and reducing inequality, plays, on the economic level, the role of ensuring the overall conditions for competent domestic business firms to be competitive — which the market definitely does not do.

To achieve its goals, the state historically divides into two: the state as a political regime, or a legal-constitutional system, and the state as public administration, or the apparatus (organization) that ensures the legal-constitutional system. In the contemporary world, the state as a political regime has taken the shape of the Social State, and as an apparatus or organization, that of the Managerial State. To govern is to make compromises to win the majority, to define laws and public policies, to make strategic decisions in line with public and national interest — to govern is to improve and ensure the state as a political regime. Yet to govern is to manage the state's organization: to choose the main parties responsible for its implementation; to detail and implement laws and policies; to constantly improve the state apparatus so that it may operate public services with quality and efficiency – it is to make the state a Managerial State.

3. FINANCIALIZED GLOBALIZATION

Post-war capitalism, therefore, was a social and developmental capitalism. However, because of the decrease in profit rate that took place in the 1970s, a *new form of capitalism* begins to emerge in the early 1980s, marked by the most extensive trade and financial openness possible, and the economic

prevalence of large multinationals and the rentier and financier capitalists associated with them. I call this new form *financialized globalization*, or *rentier and financier global capitalism*, because of financiers' ability to substantially increase their share and that of rentiers in national income. Globalization came hand-in-hand with a radical liberal ideology — Neoliberalism — that started to reject the dialectic combination of economic liberalism and developmental economic nationalism that had marked previous forms of capitalism: mercantilist, liberal, and Golden-Years capitalism. The new hegemonic doctrine declared the end of the nation and the nation-state, regarded the market as a quasi-miraculous economic coordination mechanism, gave absolute precedence to individual freedom — understood as the freedom and power of the strongest — and subordinated all other goals to this view of freedom. A clear division was then created between the strong and the weak. The strong then became not only rentier capitalists (shareholders, interest-earning capitalist and rent-earning capitalists) and the financiers who manage their wealth, but also the managers of multinational firms and their consultants, lawyers, economists and, naturally, politicians. In this new framework, the *weak*, the dominated, ceased to be only the workers only, as Socialism used to argue, but to also include industrial businessmen, who are not part of the "value chains", small and medium farmers, the bourgeoisie and working middle-classes, and the residents of medium and small cities. In addition to being a reaction against the developmental Social Democracy of the Golden Years of Capitalism, financialized globalization was a reaction against the new competition from manufactured goods exports from countries with cheap labor — the NICs (Newly Industrializing Countries): South Korea, Taiwan, Singapore, Hong-Kong, Brazil and Mexico.

The new global and liberal hegemony turned the two forms that the state had taken in the fifty previous years — the Social and Developmental State in developed countries, and the Developmental State in developing ones — into its main adversaries. By attacking the Developmental State, neoliberalism was trying to show, against all evidence, the superiority of economic liberalism, which assumes the market to be able to optimally coordinate the entire economic system, over developmentalism, which more reasonably brings the market and state together to coordinate the economy. By attacking the Social State, neoliberalism was explicitly attempting to reduce the size of the state, and implicitly attempting to weaken it. It was rehashing the neoliberal thesis according to which only small groups have the effective capacity for collective action, thus denying the state its main capability — to act as the main instrument for collective action. It was an attempt to go back in time to the Liberal State of the 19th Century, which was not characterized by growth, nor by financial stability, nor even by justice.

The neoliberal assault, aimed at reducing both workers' rights and the Social State, reproduced the classic struggle of the classes — although the initiative in this case came from the rich in rich countries — at the same time that translated capitalism's need to reestablish business firms' profit rates. The two ruling classes – the capitalist, or bourgeois, and the professional, or technobureaucratic — attempted to increase their earnings, respectively the profits and interest of businessmen and rentiers, and the salaries and bonuses of the upper-level professionals who control technical, organizational and communications knowledge. At the same time, at the level of the people, neoliberalism fostered and achieved a striking reduction in income-tax progressiveness in almost every country, based on the argument that "it was needed to stimulate working".

The rentier and financier globalization and the neoliberal ideology, which reached their peak in the early 1990s with the collapse of the Soviet Union, have been in decadence since the early 2000s,

and faced a deep crisis with the Great Recession that began in 2008. This crisis rendered the decrease of the ideological hegemony of the great power behind the dissemination of neoliberal ideas, the United States; the strong retreat of globalization worldwide, to the extent to which countries began to adopt more protectionist policies because it became evident that jobs losses in rich countries was a consequence of competition, mainly from China; and the decline of financialization because of the increased regulation of the financial system, as it became clear that the financial crisis was largely due to the deregulation that the USA and UK conducted in the 1980s.

In practice, neoliberalism was unable to convince the citizens of old (and recent) democracies to give up or leave behind the state's assigned objective of ensuring their social rights and, especially, ensuring the provision of the major social services of education, health, social security and welfare. The neoliberal attempt to put an end to the Social State by reducing its social functions failed. From 1980 until the present day, there has been a reduction in worker-protection laws, but, on the other hand, social spending in developed countries has remained constant, or even increased.

4. MANAGERIAL REFORM

In the midst of this neoliberal ideological wave, the third new historical fact emerged in the latter half of the 1980s: the *managerial reform of the state* — the second major reform of the modern state apparatus, also known as the Public Management Reform. The reform was inspired in the management strategies of private-sector firms, and the theory that emerged with it was called New Public Management. Because the new ideas came to be in a country with a neoliberal government, and at a time when the neoliberal ideology was gaining ground, they were mistakenly labeled as neoliberal. And, at some points, the managerial reforms associated with New Public Management were indeed liberal in nature, as illustrated by New Zealand in 1995, when the Conservative Party's victory led the reform that had begun a few years before to take on a neoliberal nature and start to regard increased service efficiency as a way to reduce the tax burden, instead of using the added efficiency to increase service scope and quality without raising costs. For this reason, and because the Brazilian reform relied on a theory that I believe to be far more systematic and comprehensive than that of rich countries, I would rather dissociate myself from this term. In the case of the UK, the reform was not as a result of a neoliberal idea, but rather of an agreement between the Thatcher administration and the British high bureaucracy, the former focused on reducing taxes and the latter attempting to reduce its cost by increasing service-provision efficiency, and not its reduction. On the other hand, the World Bank was the agency that the US put in charge of implementing neoliberal reforms, starting in the 1980s.[2] The World Bank was very clearly opposed to the Managerial Reform, relying on the "sequencing" argument — the Bureaucratic Reform had to be completed first, and then the Managerial Reform could be conducted.

The managerial reforms of the state first occurred in Great Britain, New Zealand and Australia. Today, the majority of rich countries have already embraced the managerial reform to a greater or

[2] William Plowden, one of the British consultants on whom the 1995 Managerial Reform of the State relied, provides a detailed description of the 1986 agreement. The earliest British Managerial Reform Program, called "First Steps", was launched in 1987 under Kate Jenkins, who would later coordinate the excellent technical support that the United Kingdom lent to the Brazilian reform.

lesser degree. Among developing countries, Brazil and Chile were the first to start reforming their states in this direction. The Brazilian managerial reform began in 1995 and continues to prosper, particularly at the level of states and bigger cities, because this is where modern management is most needed. Like the bureaucratic reform, the managerial reform takes 30-40 years before it can be deemed reasonably complete. In reality, it is never fully complete.

The Managerial Reform was a response to this criticism and a means to make universal social services more efficient than they already are by nature — because collective consumption is more efficient than private consumption, notwithstanding the inefficiencies that inevitably exist in the provision of public consumption. It is, historically, the second administrative reform of the modern state. The first was the Bureaucratic Reform, which was analyzed by Max Weber in a definite way. It was the reform that rejected the patrimonialist administration and made it professional. It was inevitable because the Liberal State was incompatible with patrimonialist administration. The Managerial Reform is just as inevitable; it is a necessary consequence of the Social State, just as the Social State was a logical consequence of the transition of rich countries into democracy and the increase in power for the people that this meant.

There was a great discussion in Brazil when the 1995 Management Reform began. Advocates of the bureaucratic model existed who could not understand that the Managerial Reform was not opposed against the bureaucracy, but rather used it as a starting point to take a step ahead. The best way to increase the professionalization of public administration is not to insist in it in a formal way, but to set goals and decentralize execution to competent public mangers who feel accomplished not only by serving public interest, but also because they know that their work is appreciated. In fact, given that the Social State is a definitive victory of modern societies and the Managerial Reform is a necessity that stems from it, its implementation is a matter of time and quality. Each country will either move forward and implement it, or stays behind and pays the cost of the delay; they will either implement it competently, or in a misguided and confused way.

The 1995 Managerial Reform was accused of being neoliberal. Today, however, such charges are almost forgotten, as it has become clear that the reform's first consequence was to strengthen the state itself, rather than weaken it, as neoliberals intended. In fact, the Managerial Reform is compatible with left- or right wing administrations but, when it makes the social and scientific services more efficient, it politically legitimizes the Social State. In Brazil, it also became clear that it was a mistake to couple the 1995 Managerial Reform of the State (led by Bresser-Pereira) with neoliberalism, given that the basic guidelines of the white paper, the *Master Plan of the Reform of the State Apparatus* (1995), continued to be implemented at the Federal level and in many provincial states and municipalities, regardless of the political orientation of the respective administrations. Although representatives from the Workers' Party ("Partido dos Trabalhadores" — PT) were critical of the reform while they were in the opposition, the Lula administration embraced many of its principles. To examples are the use of managerial techniques in the administration of the Bolsa Família minimum-wage program and in the Social Security reform, as well as the Ministry of Education's requirement that federal universities that adopted the university restructuring and expansion program — Reuni — must develop strategic plans. The federal government's decision to move ahead with the 'state foundations',[3] and

[3] The state foundations were proposed by the PT administration through Complementary Law Bill ("Projeto de Lei Complementar") No. 92/2007, regulating item Article 367, item XIX, of the Constitution. A state foundation, a non-profit entity that is part of the indirect public administration, may be set up by the Public Power in the areas of health, education, social service, culture, sports, science and technology, the environment, supplementary civil service pension, social communication, and national tourism promotion.

turn federal teaching hospitals into business firms were means to implement the concept of social organizations by slightly amending their legal definition,[4] and this is yet another clear indication in this sense. Finally, many PT-controlled local administrations created social organizations and, more than this, embraced the managerial administration strategy, as Leandro Fontoura (2015) has shown in a survey of PT-run municipalities.

5. SOCIAL STATE AND MANAGERIAL REFORM

The Social State is the most efficient way to reduce inequality and increase the safety of citizens and their families. To replace these massive collective consumption services by wage increases and the private provision of the same service would be far more expensive and, as such, citizens demand – and the economic and political elites end up accepting – that the State build extensive social security, education and public health systems. Then, these services, which account for a large proportion of GDP, have to be efficiently managed so that they will cost as little as possible to a high level of service coverage and quality. With this purpose in mind, the Managerial Reform (1) makes the managers of the services accountable for results, rather than forced to follow rigid regulations; (2) rewards services providers for good results and punishes them for the bad ones; (3) perform services that involve State power through executive and regulatory agencies; and — more importantly — (4) it maintains free-of-charge the major collective consumption services, but transfers its provision to social organizations, that is, to non-state public providers that receive resources from the State and are controlled through management agreements. Through these four characteristics — especially the latter — the public power guarantees social rights, but transfers its provision or offer to quasi-state organizations that are social organizations.

The neoliberal thesis that public consumption could be advantageously replaced by private consumption was not accepted by society. Citizens' continuous demand for collective consumption leaves no room for doubt in this respect. However, it was not enough to argue in favor of the Social State based only on this demand and to affirm that public consumption, besides more just, is also more efficient, costing less for similar outcomes. It was also needed to change the conditions under which the services were provided, to show that the State was making good use of tax revenues, and that taxpayers were not "throwing good money on top of bad" — a typical expression of opponents of the Social State.

The Managerial Reform came to change the conditions under which the major social services were provided, becoming a basic factor in the legitimization of the Social State that neoliberalism was against, since it enabled efficient management of those major services. Given the growth of the Social State, politicians and bureaucrats tried, at first, to rely on the bureaucratic public administration, which offered the minimum efficiency needed for make those services economically viable. However, as the Social State increased, it became clear that minimum was not enough. The collective consumption provided by universal public social services is intrinsically more efficient than private consumption. The best example of this fact lies in comparing the health systems of the main Euro-

[4] Social organization is an entity created by the 1995 Managerial Reform of the State. It is a not-for-profit entity, which is recognized as such by the state, provides social and scientific services defined in a management contract, and is partially or even fully funded by the state.

pean countries, which are essentially public, and the United States' system, which remains essentially private. The latter costs 17% of GDP, while the former costs 11% on average and has a broader scope. Such intrinsic efficiency was not enough; yet, social services had to be provided with more and more efficiency – which required the adoption of the Managerial Reform. It was needed to control the cost of the services, which showed to be far less efficient than when provided directly by statutory civil servants, whose work always involves some degree of bureaucratic rigidity. The relative inefficiency of bureaucratic public administration became a threat to the legitimacy of the Social State. Neoliberal ideology argued that private supply and consumption were intrinsically more efficient than public supply and collective consumption – as we have seen, the precise opposite is true. But the intrinsic efficiency of collective consumption compared with private consumption can and must be strengthened by making social services better, more efficiently, managed. Notwithstanding great neoliberal pressure, society continued to demand public services — it continued to prefer collective consumption, which translated into free or near-free social and scientific services, and continued to support a state-run social security system to ensure basic income. Therefore, a positive response was needed to citizens' demands – something that only the Managerial Reform was able to give. Thus, the Managerial Reform was not only a result of fiscal constraints. It had a political nature because it helped the Social State maintain its legitimacy in the face of permanent resistance from conservatives and the offensive of the neoliberals.

6. CONCLUSION

In sum, the Social State implies making the provision of education, health and social security services collective or public, also making their consumption collective instead of individual. For these free and egalitarian services to be viable, the state had to be able to provide them both effective and efficiently. Bureaucratic administration had already proved itself effective; but it became clear that as the State's social services increased in size, effectiveness alone was not enough. There had to be control over the cost of the services directly provided by statutory civil servants, which were too high. These costs reflected not only the massive volume of the services, but also their inefficiency stemming from the rigidity of bureaucratic administration — an inefficiency that posed a threat to the Social State's legitimacy.

The Managerial Reform's legitimization of the Social State cab be observed in many cases. One example is of Great Britain – a country that was both a laboratory for the neoliberal ideology during the Margaret Thatcher administration and where the Managerial Reform was originated. Tony Blair became Prime Minister in 1997 after almost 20 years of neoliberal administrations. Although Labor criticized the reform when they were in the opposition, the maintained and deepened it after they were in power. At the same time, they raised the tax burden to improve the quality of the health and education services. They made administration of those services more efficient, and this was a central argument for Blair to legitimize a social policy that increased the size of the State by raising public expenditure and the tax burden. Margaret Thatcher was unable to extinguish the Social State, being able to not increase the tax burden. Tony Blair changed directions and advanced towards the Social State path, increasing collective consumption of social services while attempting to transfer supply of those services to private-law public entities. In this case, the Managerial Reform was essential for strengthening the Social State.

Two other significant experiences in the same direction took place in Brazil, one under Fernando Henrique Cardoso administration, with the Unified Health System ("Sistema Único de Saúde" — SUS), and one during Lula administration, with the Bolsa Família, minimum-income program. When the first Cardoso administration began, in 1995, the system that executed the 1988 Constitution's mandate to ensure the universal right to health services was in crisis. A funding system for the SUS was yet to be established, and the hospitals involved provided deficient services and became frequently involved in corruption scandals. The rule governing the services — the 1993 Basic Operational Standard ("Norma Operacional Básica" — NOB) — was unable to address the problem. Beginning in late 1996, a major managerial reform of the SUS began base on the 1996 NOB, even as sources of funding for the services were defined. The SUS today is a universal healthcare system that meets a basic citizenship right with reasonably good quality and at a very low cost: under two Brazilian Reais a day, per citizen. The secret lies, on the one hand, in the massive mobilization that occurred to define and implement the SUS and on the social control exercised by citizens as a result of it. On the other hand, in the form of management administration distinguishing supply from demand for services and giving municipalities a much larger role in hiring the hospitals that provide services.

A similar phenomenon happened with Bolsa Família program within Lula administration's. Initially, the idea was to distribute basic food supplies ("basic food basket") under a program called Fome Zero ("Zero Famine"). It soon became clear that the program was ill-conceived and poorly managed. A choice was then made to unify and managerially administrate the various allowances in cash and in kind that existed until then, naming the complete set Bolsa Família ("Household Grant") and significantly increasing its scope. The outcome was positive. While the Fome Zero program had been the subject of constant criticism, the Bolsa Família proved itself effective serving the truly poor at a low cost. There is, of course, the criticism that the program does not stimulate work and is focused, rather than universal. Still, it is indisputable that public resources are being used efficiently and serve socially excluded households in an effective manner.

In conclusion, the Managerial Reform was born out of the need for increased efficiency and lower costs that came in the wake of the transformation of the Liberal Democracy State into the Social Democracy State. On the other hand, because in administrative terms it means the transition from the Bureaucratic State to the Managerial State, it proves itself a key instrument for modern societies to neutralize the neoliberal ideology that sought to achieve a smaller State by undercutting the Social State. By making the provision of public or collective services more efficient (albeit not as efficient as desired), the Managerial Reform legitimizes the Social State and ensures its progress and future deepening.

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