Changing Governance in the Welfare State: Managerialistic Perspective

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The welfare state emerged in the western democracies during the postwar era, where governments evolved and formulated policies to accumulate capital and sustain market profitability, while providing social and economic security systems for its citizens. In the late 1970’s, social and economic spending in the welfare state led to rapidly accelerated growth in government expenditure rising burdens of deficits causing an economic crisis in these countries. Changing demographics, globalization, and other economic and social factors were behind this fiscal crisis. Therefore, in the 1980s, many welfare governments started new retrenchment policies that aimed at decreasing spending through cutbacks by eliminating some programs and reformulating the existing policy design. There was no political consensus on these changes because politicians were not willing to accept the high political costs of policy reform. Another reason behind the unsuccessful reform in the welfare policies refers to the expected failure of institutional change due to path dependency. Therefore, governments in the Westminster democracies began reconsidering the current public management practices and shift towards building government that works better and cost less (Gore, 1993). This resulted in the emergence of new public management practices. New public management with its managerialist character brought efficiency and effectiveness to public sector organization, while maintaining its welfare policies. New public management reform was also incremental; therefore, path dependency and institutional inertia have less impact on applying new public management practices in the public sector.

Keywords: welfare state, new public management, managerialism

Introduction

The aim of this paper is to examine the recent transition to new public management which has taken place in the welfare states for the last three decades. The paper begins with an overview about the welfare state policies and how these policies were based on the Keynesian economic theory, which emphasizes the role of the state in stabilizing the local economy. This section is followed by a discussion on the unexpected fiscal crisis in the welfare state which resulted from the rapid spending on the different policies and the ever expanding government bureaucracy. This economic crisis led governments to identify the different strategies to prevent further spending while maintaining government integrity and the state welfare policies. This is followed by a critical discussion on how old public administration has not been able to resolve the public sector problems. The emergence of new public management, with managerialism as one of its main ideological components, could resolve the welfare state dilemma. This paper concludes by highlighting the main strengths
of new public management and discussing some of the criticism of this new approach to public sector management.

**The Emergence of the Welfare State**

During the postwar era, governments in the western democracies evolved and formulated policies to accumulate capital and sustain market profitability. These policies led to the emergence of the welfare state where governments built an economic and social security system for their citizens. In this context, the role of the government in the “advanced western capitalist welfare states in the postwar Atlantic Fordist boom” aimed at stimulating the economy for capital accumulation (Jessop, 1999, p. 348). This was linked to the social policies, which targeted economic and market development. The welfare state government’s policies aimed to provide basic health, safety, education, and unemployment services to formulate the social and economic security net (Jessop, 1998).

In addition to the social policies, state intervention included economic policies to stabilize the market through subsidies, grants, and other forms of economic policies on the micro and macro levels. The social and economic spending in the welfare state led to rapidly accelerated spending and rising burdens of debt and deficits causing an economic crisis in these countries. There were many reasons for the rapid spending in the welfare state. Changing demographics in the welfare regimes is one of the main reasons of the high spending on social and economic policies. For example, aging in some countries resulted in very high spending on healthcare, pensions, and disability, while in other young countries, there was more spending on education and childcare (Peter & Pierre, 2006).

**The Keynesianism Fiscal Crisis**

The rapidly accelerated spending and rising burdens of debt and deficits in the welfare state led to an economic fiscal crisis. This economic crisis is mainly attributed to what many authors referred to as the “Keynesian” form of governance (Jessop, 1999, p. 355). The work of John Maynard Keynes: *General Theory of Employment, Interest and Money* suggests that governments have major role and could intervene in the national economy to lift the economy from recession. Government’s economic and social policies will secure income for household and secure employment through demand side management. Government pursues the Keynesian form of social and economic reproduction policy, and aims to secure full employment within the national economy (Jessop, 1999). According to the Keynes’s General Theory, the state has the main role in fighting inflation and unemployment through economic and social policies. Countries adopt the culture of mass consumption through family wage for single worker to promote forms of collective consumption so that all the family may share the fruits of economic growth. National state and its institutions have the primary responsibility for developing and guiding welfare policies inside the national economy (Torfing, 1999). Hence, this Keynesian form of governance became less effective with the new developments in the welfare state.

Globalization and internationalization and the emergence of new global economies were beyond the welfare state’s control (Jessop, 1999). The emergence of the complex global-national-regional-local economies that undermines the national state, in addition to the new bilateral and multilateral agreements, and internationalization weakened the national state economy. The state power “delegated upwards to supra-regional or international bodies” which led to new shift to the new world economy rather than the national economy, “hollowing out” national state (Jessop, 1999, pp. 354, 356). The welfare state failed to
reinvent its intervention and did not build new strategies to meet the demands of new global dynamics (Jessop, 1999). Instead, the state started investing more in public works and national economy to make the economy more productive (O’Connor, 1973). On the contrary, the new strategy resulted in rapidly growing public sector and increasing in government expenditure, which deepened the fiscal crisis.

The State Response to the Keynesianism Fiscal Crises

As a result of the shortcomings of the Keynesian form of governance, public administrators in many welfare regimes began rethinking and reconsidering the role and the structure of the state. The Keynesian form of governance became a problem rather than a solution; hence, new trends appeared and debates intensified over what scholars referred to as the politics of retrenchment (Starke, 2006). One of the most influential works criticizing the welfare state’s political foundation was Paul Pierson’s work *Dismantling the Welfare State*, where Pierson assessed the social and economic welfare policies and explained its failure “to account for developments” especially with the institutional changes (Starke, 2006, p. 105).

Consequently, in the 1980s, many welfare governments started formulating and designing new retrenchment strategies that aimed at decreasing spending through two main routes. First, governments started budget cutbacks through eliminating some programs and reformulating other existing social and economic policy designs. Alternatively, the governments questioned the efficiency of public organizations and state’s organizational structure, at which point the crisis-ridden new public management revolution started seeking how to improve the ways in which government is managed and services delivered, with new emphasis on efficiency, economy, and effectiveness (Metcalf & Richards, 1990). Public sector was criticized for being legalistic, formal, and institutionalistic, expensive and labor intensive (Lerner & Wanat, 1992). The traditional bureaucratic structure in the government with its hierarchical arrangement of lines of commands that govern every individual in the public organization led to complex organizations, which also led to hiring more experts and specialists to manage this complexity (Lerner & Wanat, 1992).

The Politically Feasible and the Institutionally Possible State Response

As a result of the different issues that the welfare governments experienced in the late 1970’s, there were many attempts from President Reagan and Prime Minister Thatcher in the 1980s to implement cutback programs and change the foundation of the welfare regimes. However, these attempts were unsuccessful as there was no political consensus on a radical change in the social and economic welfare policies (Peter & Pierre, 2006). The state failed to achieve the desired policy change to reduce government spending. The main reason behind this failure was the nature of the new proposed policies. The new proposed policies were mainly cutback services and downsizing programs, which was politically unpopular because of the high number of the beneficiaries (Starke, 2006). Politicians were not willing to accept the high political costs and governments started reaching negotiated settlements with opposition parties while looking for new more efficient approaches to manage the welfare state (Myles & Pierson, 2001). Another reason behind the unsuccessful reform in the welfare policies was the “institutional inertia” (Starke, 2006, p. 105). This failure in institutional change was due to path dependency. Therefore, the economic and social policies of the welfare state persisted and the role of the state did not change (Starke, 2006). In this context, the only favorable and politically feasible alternative is reversing the government growth by reducing the size of the public sector to reduce government expenditure. Particularly in the late 1970’s, there was an expanding bureaucracy in the welfare state, which promoted
uncontrolled growth and expansion of governmental functions that then became oversupplied and over-extended (Larbi, 1999). The public sector witnessed an enormous staff expansion and the state accounted for most consumers spending (Politt, 1993).

Behavior and organizational arrangements in the ever expanding bureaucratic public service organizations became uncontrollable even with segmenting these large organizations. Public sector managers were preoccupied by focusing on the different organizational segments, while losing control on organizational performance and organizational objectives (Downs, 1967). These organizations started hiring more specialists to manage and run the different segments, which also led to growth in government expenditure. Therefore, Prime Minister Margaret Thatcher took office in 1979 with total number of 738,000 civil servants, which was reduced to 590,000. This was associated with shift toward privatization seeking alternative options for service delivery besides automation and using information technology in the public services organizations (Hood, 1991). This approach which focused on reorganizing the public sector was more politically feasible, as there was no significant cutbacks in the welfare programs, and institutionally possible, as the change was not radical. Additionally, the combination of the new economic, social, political, and technological dynamics contributed to question and investigated the role and the institutional character of the bureaucratic state, looking for major structural adjustments and ideological shift. New public management also referred to the ascendancy of neo-liberal ideas from the late 1970s, and the wide spread use of information technology associated with the increasing emphasis on good governance (Labri, 1999).

The new public management approach was real success in achieving real budget cutbacks through different reform efforts. Additionally, this transition to new public management opened new prospects to use the managerialist’s in managing the low performance public sector. The state began adopting the managerialist views to build new models of efficient public sector organizations. In this context, governments looked for big business and private sector management practices to understand how to deploy and combine these practices in public administration to increase economic productivity and become more performance oriented while maintaining organizational integrity.

Rethinking Public Administration

Welfare states fiscal crises triggered the quest for efficiency and performance. The state began investigating new approaches for managing the public service. These new changes were driven by the managerialist school of thought (Dixon, Kouzmin, & Korac-Kakabadse, 1998). After decades of dominating governments with the traditional public administration, government departments became bureaucratic, hierarchical, and centralized (Dunsire, 1999). The organizational principles for public administration were ideal type principles primarily focusing on “equity and fairness” trying to provide “uniform provision of service through centralized control, utilizing standardized employment practices and legitimated through democratic accountability” (Greener, 2009, p. 51). Dunsire (1999) summarized these principles in his work Then and Now.

- Public administration, 1953-1999 using Stewart and Walsh (1992);
- Public provision of a function is more equitable, reliable, and democratic than provision by a commercial or voluntary body;
- Where a ministry or other public authority is responsible for a function, it normally carries out that function itself with its own staff;
Where a public body provides a service, it is provided uniformly to everyone within its jurisdiction;

- Operations are controlled from the headquarters of the public body through a hierarchy of unbroken supervision;

- Employment practices (including recruitment, promotions, grading, salary scales, retirement, and pensions) are standardized throughout each of the public services (e.g., the civil service, the local government service, the armed services);

- Accountability of public servants to the public is via elected representative bodies (Dunsire, 1999, p. 361).

These principles of the public administration were ideal and theoretical based on political processes rather than management techniques (Greener, 2009). Without management ideas within these principles, public administration was not able to bring the three E’s of economy, efficiency, and effectiveness to the public organization (Dunsire, 1999). For instance, based on the managerialist school of thought, effective performance and productivity cannot be achieved in the absence of any incentives mechanism in the public organization (Dixon et al., 1998). Therefore, the lack of such system in the public organization permitted rent-seeking behavior by bureaucrats and public servants (Dixon et al., 1998). Dixon et al. (1998) call it

…opportunism in traditional public administration. This refers to the self-serving (rent-seeking), even deceitful and dishonest, behavior by bureaucrats, their clients and politicians created either because environmental uncertainty makes contracts incomplete or because principals cannot effectively monitor the behavior of their agents, who do not have identical interests and who have information that is not accessible to them. (Dixon et al., 1998, p. 165)

Therefore, conservative governments in the western capitalist democracies on both sides of the Atlantic in the early 1980’s and 1990’s witnessed re-considering and re-evaluating the traditional public administration model as it was unable to deal with the public sector demands and failed to bring the three E’s to the public sector organization (Greener, 2009). In this context, management techniques became essential for public administrators and decision makers believed in the importance of a major reform in the public sector especially with increasing demand for better service as part of the welfare rights in liberal economies (Greener, 2009).

Governments started evaluating the different politically feasible alternatives to run the public service and implement the public sector reform. This new reform aimed primarily at reversing government growth while bringing the three E’s to the public sector. Government started creating public service markets and applying market approach to public service (Greener, 2009). The movement from old public administration to new public management was materialized with privatization as the new trend with an emphasis on subsidiarity, automation through information technology, and transformation to focus on the development of an international agenda (Hood, 1991). This administrative reform was based on the notion that professional management expertise with high discretionary power will bring results orientation in the public sector organizational performance through developing a culture that focuses on outputs rather than hierarchies (Hood, 1991). In this context the new public management ideas with its professional management character became the only cure of the new social and economic conditions in the capitalist democracies. This is to replace the bureaucratic hierarchy, centralization, direct control, and self-sufficiency that characterized the public sector organization (Larbi, 1999). Therefore the emergence of new public management in the public sector was major transformation from bureaucracy with an extensive use of rules, hierarchy, and centralization to new public management with decentralization, flexibility, and customer orientation. Public sector organizations adopted
private sector management qualities that call for partnership between citizens and government while collaborating through shared governance, accountability, and transparency. This shift from administration which Keeling (1972, p.12) referred to as “the review, in an area of public life, of law, its enforcement and revision; and decision-making on cases in that are submitted to public service” to “management as the search for the best use of resources in pursuit of objectives subject to change”. Christopher Hood (1991) also referred to new public management as the “business-type managerialism” that is characterized with manager responsible to set clear objectives and communicate them clearly, and ensure strategic and proactive relationships with customers, suppliers, and other organizations (Hood, 1991).

The Managerialist Public Management Reform

The new type of public management was built on “scientific management” with new emphasis on two main ideological components: “new institutional economics” ideas, public choice, and incentive structures, transactions cost theory and principal-agent theory, and “managerialism” (Hood, 1991). It also brought a relatively simplistic approach to public sector management compared to the older public administration approach (Hood, 1991). The new transition took different dimensions focusing on improving the management of state agencies based on developing systems in which managers’ emphasis on control and finance more than their emphasis on planning and hierarchy (Politt, 1993). The new emphasis is reduction of public expenditure by eradicating opportunism, inefficiency, and wasting of tax money by the bureaucrats and politicians in public administration (Dixon et al., 1998). This new focus revealed the transfer of managerialism from private-sector corporations to welfare-state services (Politt, 1993). This injection of an ideological foreign body led to what Politt (1993) referred to as “Welfarism” (p. 11). Public sector organizational performance became directly linked to the organization “managerial ability, authority and accountability by the adoption of managerialist private sector practices” such as performance management and accrual accounting (Dixon et al., 1998, p. 164). In this context budgets are reworked in an accounting terms with costs attributed to the outputs rather than inputs (Dunleavy & Hood, 1994). The new character of the public organization embraces convenience, ease of change and management, organizational commitments, and mission commitment (Dixon et al., 1998).

Government agencies are contracting and outsourcing its service delivery functions to non-profits and private sector firms. Performance contracting and outsourcing became common policy option adopted as an instrument to reform existing government department into a government corporations or state-owned enterprises, granting public managers the operational flexibility and more significant role than before, while holding them accountable for the performance of the enterprises through a system of rewards and sanctions (Larbi, 1999; Ford & Zussman, 1997). The new managerialist approach changed the government’s role. Government’s role have become “steering”, while leaving the “rowing”, service delivery, to non-governmental entities or to collaborative arrangements between government and non-governmental entities (Osborne & Gaebler, 1992). Performance contracts are used across a number of sectors including infrastructure, utilities, transportation, telecommunications, and agriculture including urban services, ancillary health services (Larbi, 1999; Ford & Zussman, 1997).

Managerialism had also reshaped the character of public managers. Public managers became entrepreneurs of a new, leaner, and privatized government focusing on collaboration and network management, serving and empowering citizens rather than controlling bureaucracies and delivering services (Denhardt & Denhardt, 2000). In this context, government will work better with less cost meeting the critical needs for the current
welfare democracies (Denhardt & Denhardt, 2000). Public servants adopt the business management practices to become more performance oriented, and implement organizational change when it is needed, adopting strategic planning on the micro-level, considering quality service and value for money through lower cost, and on the macro-level, considering vertically flatter organizational structure with less formalization and closeness to clients (Dixon et al., 1998).

Within this reinvention movement, government had more creative delivery systems through restructuring and private sector involvement. Government was able to secure more efficient service delivery system to replace the dysfunctioning and needless bureaucracy (Caiden, 1991; Ford & Zussman, 1997). Although new public management represented a paradigmatic shift from the traditional model of public administration, some scholars addressed some weaknesses of this new managerialist approach while trying to emphasize how the state and its purpose had changed (O’Flynn, 2007). Academic writers had also questioned “the performance-chasing” new public managers and the freedom and flexibility that was given to those individuals (Pollitt & Bouckaert, 2000). Other scholars believed that the new public management threatened the democratic governance in the welfare state and the western democracies (Mosher, 1982). In the following section, these different criticisms that emphasized the weaknesses that new public management with its managerialist trend, which emphasized professionalism and brined different non-governmental actors to public service, had many impacts on the state and threatened public value and democracy.

Criticism of New Public Management

As it was mentioned earlier, new public management brought many new definitions to the public sector organization. The public sector organization became goals orientated with comprehensive budgets that emphasized management improvement through contract employment and performance monitoring of individuals (O’Flynn, 2007). The proponents of this new managerialist approach criticized the new professionalism in new public management practices. This criticism had been focused on how public managers became accountable to their organizations rather than to the public (Mosher, 1982). Mosher (1982) in his work *Democracy and the Public Service* emphasized that

… for better or worse much of our government is now in the hands of professionals. The choice of these professionals, the determination of their skills, and the content of their work are now principally determined, not by general governmental agencies, but by their own professional elites, professional organizations, and the institutions and faculties of higher education…The danger is that developments in the public service may be subtly, gradually, but profoundly moving the weight toward the partial, the corporate, the professional perspective and away from that of the general interest. (pp. 142, 150)

The new public management heavily emphasized the role of managerialism in the public sector organization. New public management emphasized professionalism and performance orientation. The core foundation of democracy conveys that the ultimate goal of government agencies is the public general interest while being accountable to the public. Therefore, this divergence in the desired goals between the public sector organization and new public managers may lead to marginalization of the general interest which threatens the foundation of western democracy (Perry & Hondeghem, 2008). Horner and Hazel (2005) in their work *Adding Public Value* added another dimension to the weaknesses of managerialism in the western democracies. They believed that the consequences of such managerial approaches will impact the public value, which is mainly based on the democratic process. They emphasized that
...citizens as shareholders in how their tax is spent. The value may be created through economic prosperity, social cohesion or cultural development. Ultimately, the value is decided by the citizen. Citizens do this through the democratic process, not just through the ballot box. (p. 34)

In addition to this criticism to new public management, many academic writers believed in the negative impact of privatization and its impacts on minorities and women. The private sector with its economic orientation will undermine employment equity as marginalized groups have tended to find jobs in the civil service more readily than in the private sector. Other proponents had also criticized the privatization process, claiming that these new strategies will lead to "hollow out" the state as private sector organizations will dominate public good supply (Goldstein, 1992). These criticisms may have real significance in the public management; hence, new public management is still emerging and most of these weaknesses are addressed and governments are considering many corrective actions to overcome these weaknesses within the state agencies. Some governments were able to increase more citizen participation through the new citizen engagement form of governance, while others were able to identify gender equity employment strategies for private sector organizations participate in government projects.

Conclusions

Throughout the paper, new public management, with its managerialist ideology, was discussed. This ideology brought efficiency, effectiveness, and economy to the public sector organization. Public administration became more performance-oriented while maintaining its integrity. The main shift was replacing bureaucracy with professionalism and goals-orientation. Hence, bureaucracy dominated the public sector for decades since Weber identified it as an ideal type form of organization. New public management is still an emerging discipline and has become the ultimate new ideal type organizational form in the 21st century. Although new public management is dominating public sector organization, the evolution of this new form of practice may experience many shortcomings as any other form of governance would. This can be concluded from the welfare state and how after three decades, welfare regimes faced fiscal crisis that resulted into major shift in the western democracies. The foundation of new public management is differentiated from other disciplines because it brings both new institutional economics and the managerialists schools of thought together but still there are real criticisms in those two schools of thought that may impact the new public management discipline.

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