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Changing Approaches to Public Sector Management

Introduction

Chapter 1 traced the changing perspectives on the role of government in development. It was noted that crisis in the welfare and developmental states in the 1970s and 1980s called into question the post-war consensus on the active role of the state in the economy and led to the ascendance of neo-liberal economic policies from the 1980s. It was not just the welfare state that was called into question, but also the traditional Weberian model of bureaucracy came under attack as being slow, inefficient, ineffective and unresponsive to service users. The crisis in the welfare state and the weaknesses of state bureaucracy led to the search for alternative ways of organizing and managing public services and redefining the role of the state to give more prominence to markets and competition. The shift was in response to a combination of stimuli for change driven by both theoretical arguments and pragmatic rationales. This chapter first reviews the theoretical arguments that have influenced the new trends in public service reforms, including neo-classical and new institutional economic theories. Second, it describes the more pragmatic rationales for change in the management of public services. The rest of the chapter provides an overview of the new approaches to public sector management in order to situate the rest of the book in a wider international context beyond the case study countries and sectors.

Theoretical bases of new approaches to public management

Several theories provide the theoretical underpinnings and justification for the changing role of government in general and for the new
approaches in public management in particular. These include neoclassical economic theories and new institutional economic theories, which have influenced market-oriented reforms by emphasizing choice and competition. This section reviews some of the relevant theories.

**Neo-classical rationalism – the limited case for government intervention**

The classical economic view is that, by giving free expression to self-interest, choice and competition, markets offer productive\(^1\) and allocative efficiency,\(^2\) delivering what consumers would choose to have at the minimum price. In that case the public sector should intervene only where there are reasons why the market will fail. Natural monopolies, inability to exclude free riders, the failure to impose the full social costs of consumption on direct consumers, charging where the cost of extending the service is zero, ignorance on the part of consumers or producers about what is available or what they need – these are all reasons why the market, unchecked by the state, will fail. It is under such circumstances that there is a limited case for government intervention; otherwise markets are best suited for service delivery.

Box 1 in Chapter 1 summarized the market failure arguments. Even though these ideas provide a set of considerations against which to consider the case for government intervention, there is need for caution. There are few services which fall neatly and wholly into any category of market failure, and where they do belong depends on local circumstances and judgements (Malkin and Wildavsky, 1991). The theoretical approach does, however, have the virtue of bringing these considerations into the open, forcing us to identify the reasons for intervention. For different services in differing national contexts there will be different *reasons* for government to be involved, and these imply diverse *levels* and *forms* of involvement. The country and service sector case studies referred to in this book explore the public sector response to market failures in specific country contexts.

By identifying the specific causes of market failure, those who argue generally for restricting the role of government can limit the scope of its intervention. Even where there is a case for intervention, government does not necessarily have to assume the entire responsibility for the provision of a service. The case for governments assuming responsibility may be reduced by separating the elements of service provision. The World Bank (1994, 1997) describes this as the ‘unbundling’ of services. The idea is that, if the processes of production and delivery are itemized, only some elements may require public intervention. Thus,