

Neoliberal Challenges and the Demise of Keynesian- Weberian State

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Abstract: Following the II. World War, there was huge devastation, and without state intervention, it was not probable to reconstruct infrastructure and rejuvenate the industry. Under these conditions to reinvigorate the economy and overcome the destruction of the war, state intervention was welcomed by large parts of society. Accordingly, the state became a vital actor in the economic sphere, and Keynesian-Weberian structures were associated with development. However, after the mid-1970s, centrally planned economic policies were pointed out as the source of operational inefficiency, poor performance, and financial deficit. The proposals to rehabilitate the illnesses of the interventionist state were based upon neo-liberal principles and called New Public Management which became vogue in Europe and suggested limiting the boundary of state activities. One of its concrete outcomes is huge transfers of state-owned assets and public services to the private sector and limited the state's regulatory power. This article aims to contribute to understanding the nature and arguments of Keynesian interventionist and deregulatory neo-liberal approaches upon the state's role in the economic domain.

Keywords: Keynesian-Weberian State, Public Ownership, Neoliberalism, Privatization, Market

1. Introduction

Following the World War II, the state became a prominent actor to reconstruct damaged infrastructure and reinvigorate the poor industry. Upon a centrally planned development approach, many states achieve incomparably encouraging outcomes, and state intervention was welcomed by many

social groups. In this period state became the sole actor providing many basic services, which demanded the state to play an active role in the process of planning and implementation. Moreover, public ownership enabled the state to carry out interventionist policies in the economic domain. However, by the 1974 oil crisis, many policies of Keynesian-Weberian state started to be criticized as the source of existing failures such as poor economic performance and financial deficit. Accordingly, new proposals came to the agenda, which strictly opposed to Keynesian interventionism and offered market values as a cure.

In the first part, the nature and tenets of Keynesian- Weberian state will be explained in the historical context. The second part will focus on how the successful interventionist applications and public ownership started to be conceived as weaknesses and failures in the mid-1970s. The last part will focus on the neo-liberal critics of centrally planned development and Keynesian interventionism, and the principles that they offered alternatively.

2. The Rise of Keynesian-Weberian State and the Prominence of Interventionist Policies

The huge devastation caused by the II. World War could not be overcome by the private sector. Reconstruction of infrastructure and rejuvenation of industry were not probable without state intervention. So the state was conceived as the natural actor to reinvigorate the economy and overcome the destruction of the war. Under the influence of Keynesian understanding of “*top-down growth*” (Edmund S. Phelps, 2010: 93), regulation extended into the domain of economy in a highly interventionist manner (Christensen and Laegreid, 2007: 499). It was accepted that more government direct involvement in the economy would result in less unemployment and less income inequality (Stack, 1978: 883; Eatwell and Milgate 2011: 561-562). So, Keynesian understanding helped to create a platform for a huge domain of public ownership which paved the way of development and provided increasing employment facilities.

When bureaucratic support for development was endorsed by the Keynesian economic entrepreneurship characteristic, state bureaucracies played a leading role in achieving incomparably encouraging outcomes and the years between 1945 to mid-1970 were called as the golden age of plan-

ning (Pollitt and Bouckaert, 2011: 9). The centrally planned development enabled to create prosperity in many countries and allocated it to large groups of people on the basis of welfare policies (Drechsler, 2005: 97). In this period state had intensive economic functions and, as in Beveridge's phrase state was in the life of people from the cradle to the grave (The Beveridge Report, 1942). The state provided a wide range of services, including health, education, basic daily utilities as electricity, gas, railway, and communication (Schick, 1996: 12).

In KWS, the state was the principal source of administration. The public sector is a relatively self-sufficient actor; it determined its own goals on the basis of publicly employed experts' decisions and used public resources to achieve those goals (Stewart and Walsh, 1992: 509). In another expression, the state could easily impose its decisions over other actors (Painter and Pierre, 2005: 11). In the Keynesian era, a valid policy implementation manner was integration (Aucoin, 1997: 296), and in this direction, the state could not make the distinction between regulation and intervention, purchase and provision, policy-making, and implementation (Scott, 2004: 148).

For the successful fulfilment of integrated policies, the hierarchical type of mechanisms seems the most convenient one. Through formalized bureaucratic procedures, the smooth functioning of the centrally set policies could be easily achieved. Authority and law were the primary instruments (Christensen, Goerdel, and Nicholson-Crotty, 2011: 125) as they ensure direct, top-down control of services (Rhodes, 1994: 151). In sum, hierarchical mechanisms provide a fertile ground to attain the centrally determined goals and implement them in an effective manner (Thompson, 1991: 10 2010: 22-23)).

During KWS the protection of public interest functioned as a leverage to create a huge platform for the state to determine labour and production policies. In this context, public ownership is a significant tool to provide a public good (Ogus, 2004: 265) and created a vast ground for the state to intervene, invest and manufacture. The state executed those functions as a direct actor of implementation. For more influential implementation, hierarchical types of mechanisms are more useful than markets and networks (Peters, 2003: 4). For the smooth functioning of hierarchy-type mechanisms, the state needs high legitimacy, huge budget, and a strong coordination capacity. Hierarchy-

type mechanisms emphasize “*objective setting, rulemaking, the allocation of tasks and responsibilities*” and strict control (Verhoest and Bouckaert, 2005: 96). KWS highly benefited from the hierarchy-oriented instruments to bring about a set of outcomes, and this understanding gives central units a set of transformative powers during policy planning, design, and implementation processes. Hierarchical instruments were installed as the basic coordination and control mechanism, and public ownership functioned as the extension of the same system in the sphere of economy. In a nutshell, the KWS’s policy capacity is strongly tied to its “*transformative capacity*” (Weiss, 1998: 15) in the domain of economy, which requires the establishment of hierarchy as the central pattern of implementation (Thompson, 1991: 10).

Regulatory functions of the state can be classified under three groups: 1- income redistribution, 2- macroeconomic stabilization 3- market regulation (Majone, 1997: 140-141). During KWS state gave priority to income redistribution and macroeconomic stabilization (Eatwell and Milgate, 2011: 564-565). Financial supports for the disadvantaged groups, standard services on education, health, and social security were the governmental activities on the axis of redistribution. The provision of welfare services to all citizens was one of the basic responsibilities of the government (Christensen, 2011:96).

A government aimed at the redistributive function had plausible reasons to intervene (Rhodes, 1994: 151). In the Keynesian period, by means of public ownership, the state got the opportunity to intervene and lead the course of action in the domain of the economy. So the state was an eminent economic actor in addition to being significant policy planner, the most dominant decision-maker, and also the prominent actor who was responsible for implementation.

In KWS the state executed regulatory functions in an integrated manner in which all stages and elements are closely connected or even intertwined (Christensen, Goerdel and Nicholson-Crotty, 2008:17). Keynesian interventionism generally appeared in the form of integration, during the implementation, “*several elements or units are united into a whole*” (Hoogerwerf 1982 quoted from Verhoest and Bouckaert, 2005: 95). In the Keynesian era, integrated policy implementation prevailed. In this direction, state had an enormous capacity to fulfill the functions as integration required to take part or lead all stages pertinent to particular service delivery. On the ground of inte-

grated policy, bureaucratic administration carried out a wide range of activities. Regulation and intervention purchase and provision, policy-making, and implementation were conceived different aspects of the same activity (Scott, 2004: 148). Such an approach allocates the state a central position that is vital to perform operational functions and is closely associated with the developmentalist nature of KWS.

In KWS governing was primarily an activity of government itself, the state in a variety of sectors provided public service within hierarchical mechanism, and minor roles can be allocated to private sector only when it was unavoidable (Tuncer and Köseoğlu, 2015: 86). The state is the main actor of coordination to achieve a defined goal. Following the clarification of the goals, the state had the expertise to determine the methods to attain these goals, had the administrative capacity to trigger the process, and was equipped with mechanisms to achieve the goals (Thompson, 2010: 23). The initiating mechanism is triggered by a central unit that functions as a core, ensuring other units to adjust their activities in line with the centrally planned goal. The state focuses on creating essential coherence for the accomplishment of policies (Peters, 2011: 9), by means of overcoming redundancy, gaps, and incompatibilities among public actors or in the coordination of public and private players during policy implementation processes (Peters 1998).

3. The Crisis of Keynesian-Weberian State

All solutions carry the seeds of problems in themselves. As Herbert Simon pointed out, the administration is rationalized by a number of mutually contradictory pairs, and whenever one side of a pair of solutions is selected; there will not be much time until the need is felt to try the other side (1946: 53). Each new solution breeds the next generation of problems, and the KWS is not an exception.

As of mid-1970, the Keynesian Weberian state was on the agenda not because of its success but because of failures. Glorious days passed, and large parts of society gave up sticking up for the auspicious consequences of government intervention (Rhodes, 1994:140). The troubles pointed out as financial deficiency and inefficient use of financial resources, over employment in the public sector (Drucker, 1980: 104; Schick, 1996: 11), lack of competition in the public sector, and high cost of service provision

(Hood, 1974: 4). The prestige of governments was declining in the eyes of the public and KWS experienced hard times (Hood and Wright 1981).

The government was overloaded with responsibilities and had apparent difficulty in meeting them satisfactorily. And the financial deficit was demonstrated as evidence of the unnecessarily vast responsibilities of government (Tuncer and Köseoğlu, 2015: 87). The initial suggestion was to cut back governmental expenditures, and it was formulated by Levine as “cut-back management”. The most important demand of the new proposal is to enhance the public resources and to limit the number of administrative service areas by activating “cutback management” (Levine 1978). In other words, the solution to cope with governmental over expenditure based upon government withdrawing, or “load shedding” (Handler, 1996: 78; Pollitt and Bouckaert, 2011: 115).

The dissents of the KWS proposed that governments were suffering from poor performance, and there was an insurmountable decline in an administrative capacity, which was connected to huge size of bureaucracy and the state’s extreme intervention to market. The problems could not be remedied through traditional administrative methods. For them, it was impossible to attain goals only by cosmetic measures through Weberian mechanisms. 1974 oil crisis with its devastating consequences created a fertile platform for the opponents of KWS to suggest that beyond cutback precautions, more deeply-rooted reforms were necessary to deal with the administrative problems. In 1980 there was a broad consensus that the ills of Keynesian-Weberian state cannot be cured within the existing administrative system, and essential reforms were inevitable. In spite of metaphors as bankruptcy and death of omnipotent Keynesian-Weberian state, the common metaphor was illness. Around 200 illnesses of bureaucratic administration were diagnosed (Caiden, 1991: 492), and Keynesian interventionist policies were pointed out as the root problem.

Especially stemming from interventionist policies on the market and the ever-expanding nature of bureaucratic mechanisms (Lynn, 2001: 145), there was an apparent problem of governability, and for the relief of overloaded bureaucratic mechanisms (Skelcher, 2000: 4), new proposals came to agenda. The main theme of these arguments was that the existing administrative structures were not sustainable, and a new paradigm was inevita-

ble. Main proposals focused on the idea that the bureaucratic interventionist way of governing was ill-suited to tackle with apparent ills of administration and then a substantial “*shift from bureaucracy and hierarchy to market*” (Olsen, 2005: 6) was unavoidable.

In time, the tendency of replacing bureaucratic mechanisms with market values gained prominence (Schick, 1996: 1). One of the main pillars of the market-based approach was to emphasize neo-liberal deregulation policy, which was accepted as vital to enhance competitiveness and to increase performance. So, the traditional hierarchical/ interventionist understanding was under pressure to change into market-oriented structures (Dunleavy et al, 2005: 467). The purpose is to break the administrative monopoly of the state by means of privatization and decrease, if possible, to nullify Keynesian interventionist regulatory practices of the state. Market like structures continue to replace centralized bureaucratic mechanisms and market mechanisms disseminated increasingly (Levy, 2010: 236).

New Public Management objected to conventional views about the extent of public sector activities and proposed a profound reduction in the scope of the public sector (Rhodes, 1994:139; Eliassen and Sitter, 2008: 57). In another way, the reforms required the installation of market mechanisms and the dismantling of hierarchical institutional arrangements. For the attainment of this purpose, their key argument to convince the people based upon the proposal that government provided services in a monolithic, inefficient, and insusceptible manner, whereas, if governmental monopoly could be broken, private sector’s provision in a competitive environment could be more responsive and consumer-oriented (Thompson, 1991: 9; Handler, 1996: 79). The consumer would become the core around which public services could be arranged (Vidler and Clarke, 2005: 20). A transition from hierarchy, regulation, and public ownership to market, deregulation, and private enterprise was the essence of the promoted change.

Huge financial deficit and inefficient structures of bureaucracy created a fertile ground for NPM’s promoters to easily convince people and to gain prominence over KWS. Their demands emphasized the government’s retreat from the market as a direct economic actor and reform of bureaucratic organization in line with market structures (Pierre, 1995: 56). The concrete outcome of these demands was extensive privatization.

4. The Rise of Neoliberalism and Initiation of Privatization

Neoliberal-oriented NPM proposed that intervention and the strict regulatory policies of the state eroded market flexibility, hindered sustainable economic development, and incapacitated the creation of new opportunities for employment. Abandonment of the interventionist regulatory policies, which did not base upon the realities of the market, was urgent. The introduction of market mechanisms would be followed by endorsement of the competition (Thompson (1991), (2010:24)). In sum, the strict bureaucratic mechanisms should be replaced by flexible marketlike structures and the understanding of a “*self-serving state*” (Caiden, 1991: 489) should be given up.

Neo-liberals put forth that the intervention of the state to the market is an obstacle to true competition. Interventions in the context of centrally planned development eroded the flexible nature of the market. The dynamics of the market were tried to be shaped by the plans which were prepared on the bureaus rather than built upon the necessities of the market. NPM claimed that the state as an actor interrupts the natural cycle of the market, “*hamper initiative (Merton 1952) and exert a depressive influence on creative minds*” (Schumpeter, 1996: 207 quoted from Olsen, 2005: 11). As a consequence, market lost its dynamic nature. So to reduce the influence of the state and diminish the corrupted domains of administration and decrease the need for regulatory capacity of the state were conceived inevitable for the reinvigoration of the creative capacity of enterprise and alteration of principles in line with market values (Bumgarner and Newswander, 2012: 547). State ownership should be given up, and by means of huge privatization, the barriers in front of market forces were to be dismantled.

According to the NPM reformers, flexible mechanisms of the market are supposed to create many more positive outcomes than the centrally planned development. Yet the creation of a domain fertile for deregulation is a demanding work as there was a well-established Keynesian mechanism that had an ever-expanding nature since 1945. The sectors related to the basic needs of many people, such as education, health, communication, and rail transportation, and basic utilities as electricity, gas, water, telephony up to that time were provided chiefly by the state. Therefore, having perennial improvement for deregulation necessitated to dismantle the deeply rooted

Keynesian-Weberian mechanisms. The adjustment of this unravelling mainly based upon the neo-liberal principle that private sector organizations are more capable than governmental organizations to deliver these services (Moe, 1999: 453).

Consequently, the manner of public service provision started to be altered, and business organizations took part in the delivery of public services. On the side of the state, the first stage of the devolution of public ownership -as a midway- was a public-private partnership which was an important indicator that the state was eager for the creation of a larger sphere for the private sector and gave a greater role to the market actors. However, this move did not make a considerable change in the course of provision as the state continued to play a prominent role that did not satisfy the demands of the private sector. The state was still significant actor in the domain of economy (Schick, 1996: 15), and this is a far distant point to meet the expectation of promoters of neoliberal deregulation. A deregulatory approach that targets to decline the state intervention to the market as much as possible (Lan and Rosenbloom, 1992: 535) should be put into practice. The economy must be liberalized, and the state retreat from the domains of investment and manufacture as much as possible (Clark, 2002: 772). The government was supposed to be much smaller; service provision was supposed to be left to the play of the market and that market forces are expected to take on the prime role in providing public services (Skelcher, 2000: 7). In order to strengthen market-like structures, the state had to give up its dominant role; otherwise, to put into deregulatory policies practice were nearly impossible. Without considerable privatization, the state could have maintained its influential role in the market. The guiding principle of privatization was a strong trust in competitive markets, a hope for “*the final demise of central planning*” (Camdessus 1999 quoted from Olsen, 2005: 7). So vast privatization was a critical step on the way of deregulation.

For smooth deregulation, traditional public services must be transferred totally to the private sector (Eliassen and Sitter, 2008: 60). The full transition of public services to private enterprise is based upon the assumption of the *weakness of the state and the strength of the market* (Thynne, 2006: 386). The public sector equated with “*major operational inefficiencies*” (OECD, 2009: 20) so any governmental service such as electricity, gas, and water

could be run more efficiently by business (Moe, 1999: 453; Thynne, 2006: 387; Dunn and Miller, 2007: 347). Moreover, the same services and goods can be provided by the private sector at less cost than the government. Another reason for the justifications of privatization is founded upon the argument of client autonomy. The public sector is not responsive to consumers' particular demands. The public services were provided in a monolithic way, and the service receivers had no choice rather than receiving and appreciating the services they got. The private sector, in contrast, had to compete to fulfill the expectations of consumers. The market was sensitive to people's satisfaction as efficiency depends upon satisfied clients (Thompson, 1991: 8; Vidler and Clarke, 2005: 21; Thompson, 2010: 25). Therefore, privatization, by relinquishing the public monopoly, diversifying providers, and consolidating competition, could easily boost consumer autonomy (Handler, 1996: 78) and satisfy the essential demand that the public sector was not able to meet. Privatization and the introduction of competition would serve to eliminate the arbitrariness of the public in the delivery of services.

Another objection to the role of the state in the market was based upon the claim that the state carried out two contradictory functions as an actor in the market and umpire for market conflicts. Privatization had significance in order to strengthen the position of business against the state. Constraining the role of the state in the market as an actor should be followed by deregulation which was important for diminishing the interventionist regulator and umpire role of the state. The insistent demand of NPM upon giving up the active role of the state in the provision of public utilities and quitting interventionist regulation finally resulted in privatization which came into vogue in the 1980s (Drechsler 2010) and quickly spread around the world. Under guiding neo-liberal principles, various state-owned properties were privatized (Gormley, 1996: 243). The huge privatization pointed to a fundamental break from Keynesian interventionist regulation mechanisms and the initial stage for the emergence of deregulatory practices, which meant a substantial shift in the style of regulation.

During KWS, the regulatory function of the state was mainly redistribution and stability in macroeconomic spheres (Jahan, Mahmud, and Papa-georgiou, 2014: 53) that a government aimed at redistributive functions had plausible reasons to intervene (Rhodes, 1994:151). For the redistributive

functions, interventionist policies are useful. Following privatization, interventionist policies by means of public ownership to stabilize macroeconomic subjects were abandoned to a considerable extent.

Following the extensive privatization, ownership as the defining feature of demarcation between public and private was changed dramatically. In another saying, the distinction based upon what was in the hands of the state and what was in the hands of private owners lost its validity to a great amount. Ownership lost its key significance to demarcate the boundary between markets and the state (Vibert, 2007: 26).

One of the main pillars of the NPM is to give a greater role to the market actors, so subsequent to extensive privatization, market values became more and more pervasive. This process eroded the boundary between public and private. Neo-liberal deregulation challenges the governmental nature of regulation. And the state's monopoly on administration was to be broken.

NPM's expectation to limit the boundaries of state actions in the domain of the economy by means of privatization of public properties was achieved in a considerable amount. Consequently, the aim of dismantling Keynesian interventionist mechanisms and installing market values was accomplished to a certain degree and a considerable shift toward market dominance was witnessed.

5. Conclusion

After World War II state entered into the economic domain as an actor as the private sector lacked the capacity to reinvigorate the industry. In the following years, through the provision of basic services and public ownership state started to carry out many economic activities and got the opportunity to intervene in the domain of the economy. In other words, public ownership created a vast ground for the state to intervene, invest and manufacture. On the ground of such intensive economic functions state became an eminent economic actor in addition to being a significant policy planner and a central figure of implementation. Nevertheless, in the mid-1970s, Keynesian- Weberian state was pointed out as the source of financial deficit, poor economic performance, and inefficient administrative structures. The common metaphor that was used to depict the KWS was an illness, and neo-liberals suggested that the disease could not be remedied without giving up intervention-

ist policies. For neo-liberals, the intervention of the state to the market is a hindrance for true competition. Interventions in the context of centrally planned development eroded the flexible nature of the market. Neo-liberals claimed that the state as an actor interrupts the natural cycle of the market; because the dynamics of the market were tried to be shaped by the plans which were prepared on the bureaus rather than built upon the necessities of the market, and finally market lost its dynamic nature.

Another argument of the opponents of public ownership was that services were provided in a monolithic, inefficient and insusceptible manner by the state, whereas the private sector could provide the same services in a competitive environment, which means services would likely become consumer-oriented. In other words, service provision would be more responsive to the preferences of the customer, and the consumer would become the node around which public services could be aligned. As the neo-liberal approach gained prominence, marketlike structures started to replace centralized bureaucratic mechanisms, and state ownership was given up by means of huge privatization. As a consequence, in the mid-1980s, the barriers in front of market forces were dismantled, and market mechanisms disseminated considerably.

Neoliberal Meydan Okuma ve Keynesyen-Weberyan Devlet Anlayışının Düşüşü

Özet: II. Dünya Savaşı büyük bir yıkıma sebep oldu ve devlet müdahalesi olmadan altyapıyı yeniden inşa etmek ve sanayiye canlandırmak mümkün değildi. Bu koşullar altında devletin müdahalesi toplumun geniş kesimleri tarafından memnuniyetle karşılandı. Devlet zamanla ekonomik alanda hayati bir aktör haline geldi ve Keynesyen-Weberci yapılar ile kalkınmanın vazgeçilmez bir unsuru olarak değerlendirildi. Ancak, 1970'lerin ortalarından sonra, merkezi planlamacı ekonomi politikaları, idari verimsizliğin, ekonomik düşük performansın ve mali açığın kaynağı olarak görülmeye başlandı. Müdahaleci devlet uygulamaları sonucu ortaya çıkan hastalıkları iyileştirme önerileri neoliberal ilkelere dayanıyordu. Avrupa'da moda haline gelen ve devlet faaliyetlerinin sınırlarının sınırlandırılmasını öneren bu yaklaşım Yeni Kamu İşletmeciliği olarak adlandırıldı. Bu alternatif yaklaşımın somut sonuçlarından biri, devlete ait varlıkların ve kamu hizmetlerinin özel sektöre devredil-

mesi ve devletin düzenleyici gücünün sınırlanmasıdır. Bu makale, devletin ekonomik alandaki rolüne ilişkin Keynesyen müdahaleci ve neoliberal deregülasyon yaklaşımlarının doğasını ve argümanlarını anlamaya katkıda bulunmayı amaçlamaktadır.

Anahtar Kelimeler: Keynesyen-Weberyen Devlet, Kamu Mülkiyeti, Neo-liberalizm, Özelleştirme, Piyasa

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