Hybridity as an administrative strategy: combining bureaucratic capacity with market signals and deliberative democracy [*]

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The agenda of "State Reform" during the past quarter century, has been conceptually clear, which has been an advantage in overcoming political opposition. Much has been accomplished. Looking back over the results of a quarter century of State reform, there have been many specific instances of gratifying success. Nonetheless, the overall results still leave much to be desired. In Latin America and Africa trends in the "bottom line" – that is economic growth rates – show no signs of improving. Even more disturbing, the ability of states to deliver the basic public services and collective goods on which ordinary citizens rely remains precarious. In many cases the capacity to deliver collective goods is deteriorating. Finally, the classic problem which was supposed to be brought under control by state reform – corruption – remains disturbingly prevalent.

After a quarter of a century it is clearly time to rethink the agenda of state reform, not just in terms of perfecting or "fine tuning" the old agenda, but in terms of exploring alternative conceptual possibilities. The "hybridity" approach proposed in this paper is only one such possibility. It has the disadvantage of complicating the vision of state reform of what state reform is about. In compensation, it could serve to open up the debate on state reform to voices and ideas that have been marginalized by the power of the previous vision.

This paper should really be called "<u>Recapturing</u> Hybridity as an Administrative Strategy." Since the beginnings of modern public administration three basic modes of control have been used to shape the effectiveness of state apparatuses. The imposition of professional norms, hierarchical authority structures and standardized procedures is the classic mode of control. Over the course of the last 200 years, this mode has been complemented by a variety of mechanisms designed to increase democratic "bottom-up" control by the citizenry. Finally, markets signals have always played a role. It is not just that markets defined the price parameters within which administrators must live. From the historically intimate relations between the British Treasury and the private financial markets of the City of London to the carefully orchestrated responses of the East Asian Tigers in developing and sustaining export markets for local corporations, administrative structures and markets have always been intimately connected.

The argument of this paper flows from the presumption that effective public administration, especially when development is the goal, requires the synergistic integration of these three different modes of – what I am calling here "hybridity." If this is true, then we must be worried by the extent that a confluence of disparate factors has upset the balance dramatically expanding the role of "market signals" at the expense of the other two factors. Searching for ways to recapture hybridity, within the constraints imposed by the current global neo-liberal regime, becomes the next challenge of state reform.

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[*] PRELIMINARY ABSTRACT for a PLENARY LECTURE to be presented at VII International Congress of CLAD on State Reform and Administrative Development. Lisbon, Portugal, October 11, 2002

Over the past quarter century, the main conceptual thrust of state reform has been to use markets or market mimicking mechanisms to replace control by traditional administrative hierarchies. First, states have been urged to stop using public administrative apparatuses to perform tasks that private corporations are likely to do better. Second, states have been encouraged, even in the provision of core collective goods and public services, to subject administrative organizations to disciplines based on performance measures that mimic markets. At the same time the role of markets in shaping administrative structures and decision-making has been magnified by the growing weight of international financial markets in determining national economic decisions and by the emergence of global neo-liberalism as the defining doctrine of international political economy. The overall result has been to turn certain privileged market signals into an "800 pound gorilla" in the eyes of policy makers.

In reality, the problem is not that public administration pays more attention to market signals. That is, in general a good thing. The problem is that "market signals" tend to be defined in an antiquated way, as though the markets of greatest importance to state administration had the properties of the simplest commodity markets in which prices are likely to reflect a true competitive equilibrium. The complexities of coordination failure (a la Stiglitz) in which equilibria are multiple and simple linear solutions can end up being seriously sub-optimal are largely ignored. Even more important, the insights of Douglass North's "new institutionalism," which should be central to any analysis of the interaction of markets and public policy, have not been fully incorporated in standard policy making prescriptions.

North foregrounds a simple proposition that was central to Adam Smith and remained a fundamental (but too often implicit) assumption in subsequent neo-classical analysis. Markets require a combination of formal and informal disciplining institutions; otherwise, they don't function. The United States has recently witnessed the devastating results that occur when informal norms erode and public institutions fail to discipline powerful market actors, at least to the extent of monitoring the quality of the information they offer other market actors. In a Northian perspective, public institutions and markets are siamese twins. Each needs the vibrancy of the other in order to prosper. Emphasis on the role of market signals in constraining public institutions must be accompanied by equal emphasis on the central role of public institutions in disciplining private market actors.

The third problem with the way "market signals" have been defined is that data presented as proxies for market signals often come closer to reflecting the self-interested preferences of powerful market actors. The "ICRG" (International Country Risk Guide) data, which is widely used to judge the comparative performance of states in the Global South, provides an interesting illustration. While overall averages on ICRG ratings have improved in recent years, a closer look shows that the biggest improvements are on indicators which primarily measure the extent to which governments refrain from threatening the prerogatives of large private investors – expropriation risk and risk of repudiation of contracts. Other indicators of the general performance of public institutions – bureaucratic quality and corruption have shown no such improvement. Even more disturbing are the findings of recent research by Mick Moore and his collaborators at IDS. They found that better ratings on ICRG indicators were <u>negatively</u> correlated with country's performance in converting national income into gains in the HDI (Human Development Index).

Basing efforts to conform to market signals on antiquated assumptions of how markets work and using biased proxies are only one side of imbalanced emphasis on making public institutions market-conforming. The imbalance has also led to conceptual neglect of the essential contributions of the other two modes of control, most directly professional norms and administrative hierarchies. Despite the arrogance and gross inefficiencies we have all seen flow from administrative hierarchies, it is important to remember what powerful instruments for achieving public ends bureaucracies can be. Indeed, most of the perverse consequences attributed to bureaucratic organization are in fact consequences of the absence of true bureaucratic norms and structures.

A few years ago Jim Rauch and I undertook a simple empirical exercise. Using a panel of experts we collected estimates of the extent to which the core organizations of economic administration in a sample of developing countries conformed to the basic features of true bureaucracies as originally identified by Max Weber: whether recruitment to public positions involved impersonal meritocratic criteria, whether those recruited into these organizations could expect long term career rewards that approximated those available in the private sector, providing they preformed well, and so on. We found our “Weberianness” scale to be a strong predictor of economic growth. Controlling for initial GNP per capital and initial endowments of human capital, having higher levels of “Weberianness” turned out to be an impetus to the growth of GNP per capita, at least as powerful as any of the indicators used in traditional cross-country growth models. These results should not be interpreted as a defense of sclerotic administrative traditionalism. What they do show is that simple organizational principles designed to increase the cohesion and coherence of public institutions can pay large dividends in terms of standard economic goals.

Reminders of the importance of organizational health of administrative structures also are also reminders of the centrality of norms, both internal and external. Belief among the general citizenry that “public service” is a valuable, honored profession has been a major component in the long term career rewards of administrative personnel. Internalization among “bureaucrats” of the belief that they are collectively performing an invaluable service and that deviations from professional standards are morally unacceptable are equally important. Turning reliance on market signals into an ideological campaign can undercut the normative structures that underlie administrative effectiveness. It may even inadvertently legitimate corruption by implying that, as a general principle, individual maximization of material rewards should be valued over traditional norms of public service.

Just as the recent history of state reform has risked “throwing the baby of professional public service norms out with the bath water of arrogance and resistance to innovation,” it has also tended to neglect the third mode of control – institutionalization of democratic processes for engaging the citizenry in the process of public decision-making. Democratic engagement is likely to have positive normative spillovers. Increasing citizens’ sense that they have some real control over the allocation of public resources increases identification with public institutions and valorizes the notion of “public service.” Experiments with forms of “participatory budgeting,” which in some cases (e.g., Kerala, India) have shifted responsibility for as much as 40% of planned budget, have shown that democratic mechanisms can still be very effective in improving the quality of public administration.

In the case of democratic engagement as in the case of professional norms and standards, the future agenda of state reform must become much more sensitive to the potential for excessive reliance on market signals to inadvertently subvert what should be complementary mechanisms for strengthening public administration. When markets, particularly international financial markets, become an “800 pound gorilla,” the citizenry is left feeling that they are “allowed to vote but not allowed to make choices,” thereby undercutting incentives for trying to use democratic means of control.

Some will say that a movement to re-balance the agenda of state reform will lead to dangerous neglect of basic rules of efficiency, that fiscal prudence and questions of cost-effectiveness could be swept aside by populist pandering and that efforts at innovation could be stymied by the re-enthronement of bureaucratic rule-following. In fact, this is highly unlikely. Barring collapse of the global economy, the power of the market signals/market mimicking leg of the tripod of modern public administration is secure. Both the ideological hegemony of modern economics (inside public administrations and outside of them) and the irreducible power of international financial markets ensures the continued prominence of the market signals side of the triumvirate. The challenge is to find ways of recovering the essential roles of the other two legs of the tripod.

Recapturing hybridity will not be easy. There is no obvious counterweight to the “800 pound gorilla” of international financial markets on the horizon. Nonetheless, without a better balance among administrative organization, democratic engagement and market signals, the state administrations of the Global South are unlikely to be able to surmount the daunting challenges that they now face. The battle to re-balance the agenda of state reform will depend above all on the imagination and determination of those who best understand the dilemmas of reform “on the ground,” which is to say groups like the membership of CLAD.

Background on the “Hybridity” Perspective

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