851216-2574 / USD 20.00

ACTA JURIDICA HUNGARICA
50, No 4, pp. 359–387 (2009)
DOI: 10.1556/AJur.50.2009.4.2

GYÖRGY GAJDUSCHEK *

The Critique of the Ideology Underlying the Slogan "Run like a business"**

Abstract. The paper criticizes the ideology behind New Public Management movement that prefers market to government, private company to public institutions. The study sums up the main arguments of this ideology, based mostly on an overly simplified version of neoclassical economics and attempts to provide a structured inventory of counter arguments. Counter arguments first attack the myth of the general superiority of the market and the firm. Secondly, it is argued that government is different. Thus, even if market and firm were superior these mechanisms still cannot be applied in most parts of government business.

Keywords: Public Administration, government, ideology, New Public Management, effciency, effectiveness, market, economic theory, public choice theory

Introduction: The Subject-Matter and the Method

In this essay I intend to analyse the ideology underlying the slogan "Run like a business" admittedly with a critical sting. Anyone who has dealt with the issues of the state and public administration even if in an oscular manner during the recent two decades, has hardly been able to evade the encounter with the slogan above or the underlying movement of the so-called New Public Management. The essence of the New Public Management generally abbreviated as NPM is that the classical-bureaucratic method of the functioning of the state should be abandoned.[1] Instead, the market mechanism and private companies constitute

* PhD, Associate Professor, Senior research fellow, Institute for Legal Studies of the Hungarian Academy of Sciences, H-1014 Budapest, Országház u. 30.
E-mail: gajduschek@gmail.com
** This paper was written within the framework of the project N° NKFPG-00075/2005 on "The effects of European Union's membership on Hungarian law and administration".
The paper was originally written in Hungarian for the Politikatudományi Szemle (Hungarian Political Science Quarterly).
[1] A detailed introduction of NPM is not feasible here. For further orientation: Hughes (2003) provides a typical practical summary of the application possibilities of New Public Management; whereas Perry [Perry, J. L. (ed.): *Handbook of Public Administration*, San

the ideal. According to the underlying philosophy: *The market is always better and more efficient than the state, companies are always more efficient than public administrative organs. More market and less state are always more beneficial for the society.*

The recognition of more abstract theoretical approaches behind NPM as an applied theory pertaining to public administration is not difficult. NPM demonstrates an obvious relation to the conception of neo-liberal-neoclassical economics and generally to mainstream economics, which construes the market as an optimal society-organisational principle.[2] It is the frame of reference and especially the methodological establishment of principles of this economics, i.e., the departure from the rationally acting individual maximising exclusively his/her individual profits that is applied by Public Choice theory, scilicet, the Public Choice Theory to the public sphere and the state. Public Choice has entailed a new approach in the analysis of political relations and within that of the functioning of the state and has reached several significant conclusions.[3] Of course, the departure principally destines the conclusion that the state is less efficient in comparison with the market. In his work quoted several times, Niskanen[4] proved on the basis of the mathematical apparatus of economics that state services do not work efficiently, because they provide larger supply than the market optimum. From a somewhat divergent (otherwise not proved) departure point, but with similar methods Migue–Belanger[5] reached the

---

Francisco, 1989] is a scientific and huge volume, which examines all the relevant issues of public administration via the perspective of NPM. Pollitt-Boukaert [Pollitt, Ch.–Bouckaert, G.: *Public Management Reform. A Comparative Analysis.* Oxford, 2000] provides the comparative introduction, analysis and assessment of the public administrative reforms of the recent decades. A short introduction and assessment of NPM techniques is provided by Hajnal [Hajnal, Gy.: Teljesítmény-orientáció a közigazgatási reformokban. Nemzetközi tapasztalatok a második világháború utáni időszakban (Performance Achievement Orientation in Public Administrative Reforms. International Experience in the Period after World War II)]. *Magyar Közigazgatás*, 49 (1999) 289–299, 361–370, 426–435] and with a positive attitude by Horváth, M. T.: *Közmenedzsment* (Public Management). Budapest–Pécs, 2005.

[2] Milton Friedman, the most famous economist of the era can be considered an emblematic figure of this approach. The lengthy entry of Wikipedia dealing with him provides a good summary of his work and thinking.

[3] A good summary in Hungarian is Johnson [Johnson, D. B.: *A közösségi döntések elmélete* (The Theory of Public Choice). Budapest, 1999.] In English Lane [Lane, J.-E. (ed.): *Bureaucracy and Public Choice.* London, 1987.] focuses expressly on the role of the state.

[4] Niskanen, W. A.: *Bureaucracy and representative government.* Chicago, IL, 1971.

[5] Migue, J. L.–Belanger, G.: Toward the General Theory of Managerial Discretion, *Public Choice*, 17 (1974), 27–47.

conclusion that the quantity of state and public services is not, but their prices are higher than the market optimum. That is, they agree that state and public services are not efficient, but they disagree concerning the question in what this manifests itself. In this essay, it is obviously impossible and unnecessary to enter into the introduction of neoclassical economics and Public Choice Theory. Flashing light on the ideal span ranging from theory to practice, from general to concrete state and public administration describable with the formula of "neoclassical economics → Public Choice Theory → New Public Management" (NPM) was necessary, since the ultimate measures of value and the claims of NPM basically follow this span. The critique of ideology needs to examine not so much concrete techniques as the underlying „philosophy".

The acknowledged method and style of this essay is *a critique of ideology*. In this essay, I will examine and criticize the set of ideas underlying NPM. I will grasp this doctrine as an ideology, since I don't intend to deal with it as a scientific paradigm. Since, on the one hand, it is questionable for several reasons, whether it is a paradigm.[6] Since, on the other hand, I do not intend to examine it as a scientific achievement. Namely, in this case generalising statements are always questionable, since differences among authors always obtain. However, I am exclusively interested in the foundational idea by reason of its effect. Namely, the market ideal has basically determined the mentality of recent decades. NPM has been a manifestation of the Zeitgeist with respect to the state. We have witnessed the interesting, however, not unequalled case in history[7] that the conceptions related to the management of the state were determined by an ideology sharply opposed to the state.

The critical approach proceeds remarkably from my personal partiality. As a researcher of public administration, I am partial to the state and I consider its working necessary and useful. The method of ideology criticism, which is without doubt somewhat obscure and has a neo-Marxist overtone, seems to be adequate, since in this context my affirmative bias to the state rather reinforces than diminishes the capacity of the revelation of reality. Namely, following discursive logic, I will attempt below to expose the weak points of the view opposed to mine.

[6] Gow, J. I.–Dufour, C.: Is the New Public Management a Paradigm? Does It Matter? *International Review of Administrative Sciences* (IRAS), 66 (2000) 573–597.

[7] The short initial period of the communist attempt was characterised by such an ideological approach.

In the course of that, *I will dwell on three main subjects*: the idealisation of the market as a general social mechanism, the idealisation of the market as en economic mechanism and efficiency ideal, finally, the idealisation of the corporate as an efficient organisation. (Besides, I will roughly refer to the features of the prevalence of NPM in Hungary.) *In the three cases (a) I will reconstruct the major claims of the ideology pertaining to the market and companies, (b) then I will examine the reality content of these claims in themselves (c) and how these correlate with the state and public administration.*

The Market as an Ideal Social Mechanism

The myth of the market often reaches beyond economy in narrow terms. Below, I will survey these proposals. Such universal virtues of the market are emphasised especially by the so-called Viennese economic school, which at the same time condemns the state-bureaucratic solutions. This circle includes Friedrich Hayek, Ludwig von Mises and partly Joseph Schumpeter. The arguments for the market are summarised especially in the volume “Road to Serfdom” written by Hayek published in 1944. Besides, several neo-liberal economists frame similar thoughts, such as Milton Friedmann.

The market as an original human relation

The functioning of the market is often regarded as a relation, which implies some primeval condition. The natural condition of rational individuals wishing to maximise their profits is competition, exchange and the surmounting market mechanism. In this constellation, the emergence of the state is some perversion, the occupation of an aggressive, but in fact negative entity on a more useful, primeval mechanism.

It is not problematical to realise, however, that the most profitable activity in an economic competition not limited legally or by the state is the skinning of others, since this promises saliently high returns with low costs. From the robbed value, helpers can be hired, relying on whom even more people can be skinned. Therefore, this is the competition of robbers, which will shortly lead to an oligopolistic situation: the reign of some robber barons. If any of the robber barons grasps the power over the others, the state may be established. In this sense, theoretically we may infer that the market was the primary form. It is another issue that judging from history, ancient societies were not characterised by the endeavour to maximise individual profits. Instead, the behaviour was determined by the community and community norms, in which self-interest and competition were considered deviances disregarding rare exceptions. (On the non-market logic of exchange in pre-modern societies: Bourdieu[8].)

The myth of the invisible hand and the prisoner's dilemma

According to the conception closely related to the above, the genuine great merit of the market mechanism is that it channels the acts of individuals inevitably following their self-interest as a specific co-ordinational mechanism to a sort of social optimality-balance. It offers a solution for the contradiction between individual selfishness and community welfare, which various utopias drawing primarily on morals tried to solve, each time unsuccessfully. Concerning this appealing idea, doubts arise with full knowledge of the prisoner's dilemma. This type of strategic games, which has been in the centre of the concern of social sciences during the recent decades, delineates the situation, in which the decisions of rational profit-maximising individuals in their sum lead to the worst possible disentanglement on a community level.[9]

[8] Bourdieu, P.: (ed.): *A gyakorlati észjárás. A társadalmi cselekvés elméletéről* ("Practical Thinking. On the Theory of Social Action"). Budapest. 2002.

[9] See, e.g., Axelrod, R.: *The Evolution of Cooperation.* Basic Books, New York, 1984. In Hungarian: Hardin, R.: A kollektív cselekvés mint megegyezéses, N szereplős fogolydilemma (Collective Action as an Agreed Prisoner's Dilemma with N Participants). In: Csontos, L. (ed.): *A racionális döntések elmélete* (The Theory of Rational Decisions). Budapest, 1998. 191–207.

The prisoner's dilemma pertains to the situation, when two criminals, who were once involved in a "make" together, but don't know each other, are arrested. Since without the confession of at least one of them, this crime cannot be proved, only a much lighter crime, the following choice is proffered to the two captives separately. If one confesses but the other does not, one will be released in the scope of plea bargain, whereas the other captive will be sentenced to 10 years' imprisonment. If both captives confess, each will receive 7 years. If neither of them confesses, each will receive 1 year. They are informed that the other party is presented the same conditions. The situation is illustrated by the following diagram:

	X - confesses (competes)	X – does not (cooperate)
Y–confesses (competes)	7(X) – 7(Y)	10(X) – 0(Y)
Y–does not (cooperate)	0(X) – 10(Y)	1(X) – 1(Y)

It is demonstrable that whatever one of the parties chooses to do (whether confesses or not), the other party will be better off with confessing. Thus, this is the rational attitude for both of them separately. At the same time, this is the worst possible solution (adding up the received number of years).

It is a typical prisoner's dilemma situation, when among market actors the question arises, whether they should cheat the other or not, taking into account that this question arises in the other party, as well. It can be easily understood that if we posit pure market relations, individual profits can be generally increased by cheating the other, therefore, the actors of the market will follow this path. (As we saw, robbing the other promises even more profits.) On a social level, however, this is not in the least optimal or efficient. We daresay this is the worst possible condition of a society.

It is by no means certain that the social encounter of profit maximising individuals will lead to optimality on a social level, but it may frequently launch contrary processes. These issues, primarily, the issue which factors lead to market optimality and which give rise to opposing tendencies are dealt with by Douglas North[10] with convincing conceptual clarity. North claims that the prevalence of the negative consequences of the prisoner's dilemma situation is especially possible if (a) the participants do not "meet" generally and recurrently, (b) if the participants do not know the former behaviour of each other (in similar situations), (c) if the number of the participants is especially high. We can easily recognise that this description fits the ideal-typical market transactions. We can consequently infer that the market would be unable to function on its own.

Indeed, the basic condition of the functioning of the market is that the state guaranteed the safety of property including the necessary keeping (e.g., real estate) the registers and the activities related to division and other transactions. Besides, the state is also necessary as the ultimate guarantor of compliance with contracts.[11]

Other "moral" advantages of the market

The market is the field of freedom, self-sufficiency, responsibility, but at the same time of equality, since it is not characterised by hierarchic arrangement, but by the exchange based on the free will of equal parties and by competition

[10] North, D. C.: *Institutions, Institutional Change and Economic Performance*. Cambridge, 1990. mainly: 11–35.

[11] The role of the state as a guarantor of the functioning of the market is more and more acknowledged, although not emphasised by neoclassical economic textbooks. E.g., the university textbook of Stone published recently and used widely, ranging up to 700 pages, devotes a whole page to these two conditions, although with specific overtones (e.g., individual ownership is better than community ownership, etc.). Stone, G. W.: *Core Economics.* New York, 2008. 83–84.

pursued with equal conditions. The enterprise is free. For the entrepreneur, the market is a field on which he can reach autonomous decisions and have them weighed in the balance. For the consumer, the market offers the opportunity of free choice as opposed to the bureaucratic-monopolistic state services (e.g., panel doctors, schools). The background to all this is the impersonal, thus unbiased market mechanism, which measures each party with the same standard.

In fact, however, as the sharp criticism of Perrow[12] demonstrates, in the market economy the overwhelming majority of people doesn't work as an entrepreneur, but as an employee of a frequently huge organisation, in a stiff and sometimes rather relentless hierarchy, while s/he is existentially exposed to this organisation.

It is worth mentioning that big companies determine the everyday lives of people to a rather great extent. We are exposed to monopolies (e.g., water, gas, electricity), banks, etc. The power of these market organisations can be greater than that of the state, and as such, they threaten individual freedom not less, than the state itself. However, while the liberal state and the Rechtsstaat has established the institutional guarantees (institutional structures, fundamental rights, publicity), which provide safeguards vis-a-vis the excessive power of the state, these guarantees are totally absent vis-a-vis the economic power of concentrated capital,[13] which has gradually gained ascendancy over the state, as well. Later I will treat at length that choice on the part of the consumer is sometimes illusory, since the consumer does not have sufficient information to make a good decision and this is expressly impeded by market mechanism.

An argument for the market is its impersonality, which eliminates personal dependence and defencelessness, as opposed to e.g., the decisions of the state. It is worth mentioning here that this is an impersonal mechanism, which today decides this way, tomorrow that way, and there is no appeal against its decisions as opposed to the decisions of the state.

[12] Perrow, Ch.: *Szervezetszociológia* (Organisation Sociology). Budapest, 1994. 6–7.

[13] The "legal realist" movement recognised this in the USA as early as in the 1930s. Therefore, it assigned a greater role to the state as the factor that can rescue the individual from the reign of big companies. Gordon, R. W.: Willis' American Counterparts: The Legal Realists' Defence of Administration. *University of Toronto Law Journal.* 55 (2005) 405–425.

The market and democracy

The market is the world of equal and free people. Therefore, the market is also the basis of the democratic political order, so far as it trains people for self-sufficiency, secures independence financially and intellectually, schools people in being equal with others, etc. The market is positioned opposed to the extremely hierarchic state-bureaucratic establishment, the dreadful examples of which (e.g., in the age of Hayek) were the totalitarian states.

The relation of economy and democracy has been raised by political scientists and political sociology, as well. Lipset[14] examined the issue already since the 50s. Nevertheless, he did not mention the functioning of the market, he considered financial affluence and the absence of too great social differences much more important, while the latter is not the characteristic of the pure market. Whereas, the empirical research based on mathematical statistical procedures by Lane-Ersson[15] examined the issue and the democratic establishment demonstrated significant correlation not only with welfare, but with the functioning of the market. The correlation, however, does not refer to a cause and effect relation. It is easily conceivable that a third factor underlies both factors. (Weber, for instance, would possibly make a guess for the protestant ethic.) In a summary, we can state that empirical data by no means refute the supposition that the market is the basis of democracy, but they do not fortify it convincingly, either.

Market Optimality

Below, I will demonstrate what the optimality and the efficiency of the market mean. This is interesting because their natures are generally unknown for experts dealing with the state and public administration (typically political scientists and lawyers) and for politicians, which gives rise to misunderstandings. Subsequently, I will examine to what extent this notion of efficiency is applicable to the state and to its part, i.e., public administration. Eventually, I will prove at relatively great length that the market does not function according to its efficiency criterion, either. The the market ideal (as opposed to the state) is simply a myth.

[14] Lipset, S. M.: *Political Man. The Social Bases of Politics.* Baltimore,1960. 27–63.

[15] Lane, J.-E.–Ersson, S.: *Democracy. A Comparative Approach.* London, 2003.

Pareto optimality as an efficiency criterion

When economists talk about the efficiency and optimality of the market, they refer to a specific type, the so-called Pareto optimality.[16] *The Pareto optimal is the state, which cannot be changed without incurring that somebody's situation gets worse.* Accordingly, the market is such a state. This is relatively easy to understand, since the market is established on the logic of exchange. It is worth exchanging for those concerned until they are better off with exchange and can increase their so-called utilities. Nevertheless, the exchange will not supervene, if it is not advantageous for any of the parties any longer. On the basis of the same logic, the consumer chooses from the competing products, and on the basis of the same logic, the manufacturer decides which product to manufacture with which input composition.

Although, in case of the market a large number of actors exchange a large number of products, for the sake of perspicuity, the Pareto optimality is generally illustrated as a relationship of two actors. Diagram 1. demonstrates the Pareto optimality as a division between two persons.

The diagram illustrates the potential manners of division between X and Y. The Pareto optimal points can be found on the curve delineated by points A–E–B. This cannot be surpassed (since it would require e.g., more products to be distributed), therefore, Point D denotes an unfeasible solution. Whereas, a move from Point C is possible (upwards or to the right), so that it entailed the increase of efficiency, that is, it led to a better solution both for X and Z.

[16] Below, I am obliged to venture into the area of economics, although I am not an economist. Let it be said in my defence that economists do the same, when they make statements concerning the state. Of course, I learnt economics and strove to get a grip of the related literature at least as an interested dilettante. The statements concerning neoclassical economic arguments draw primarily on Baumol-Blinder [Baumol, W. J.–Blinder, A. S.: *Economics. Principles and Policy.* Dryden Press, Philadelphia, 1994] although, I have naturally surveyed other textbooks, as well [eg., Stone: *op. cit.*] In Hungarian the most often quoted volume is Samuelson-Nordhaus [Samuelson, P. A.–Nordhaus, W. D.: *Közgazdaságtan* (Economics). Budapest, 2005], which is essentially the first comprehensive work introducing the neoclassical economic theory in Hungarian. Since then, several other books have been made accessible, some of them written by Hungarian authors.

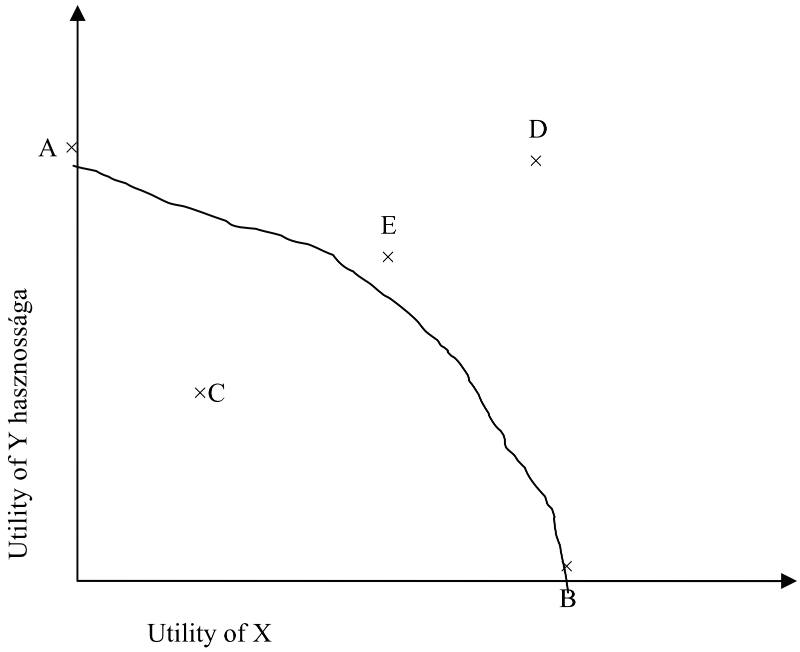

Diagram 1. The graphic illustration of the Pareto optimality

The consequences of the Pareto optimality

Let's have a look at some characteristics of the Pareto optimality!

As Diagram 1 demonstrates, each of the A, E and B points is Pareto optimal, that is, they comply with the concept of market optimality. However, at Point A this optimal state means that everything is owned by Y and X obtains nothing, whereas, at Point B the situation is just the opposite. Practically, at Point A Y prospers, while X simply starves to death. This is obviously a Pareto optimal solution, since Y will not change goods with X, because X has nothing. Our sense of justice obviously prefers Point E, at which the two parties are making similar use of the goods. However, from a Pareto optimal state, just because it is Pareto optimal, it is impossible to move towards another Pareto optimal state, at least not on the basis of the logic of market exchange.

But what does it mean and why is it that Y owns everything, while X owns nothing? Well, this can occur because X cannot sell anything on the market, not even his labour, because, for example, he was born disabled. This example shows a further efficiency feature of the market, so far as it creates an optimal balance between production and consumption: those who cannot appear on the market as sellers cannot appear as customers, either, thereby, complying with the criterion "who does not work, should not eat, either". It is another issue that the market mechanism is insensitive to such questions as why somebody doesn't work or why somebody doesn't have rich parents.

Let's now see another case! Suppose there is an opportunity to move from this Pareto optimal situation that the utility of a person decreases by a thousandth, while the affluence of all the other members of society (e.g., 10 million) doubles. In other words, social welfare may double at the expense of the hardly discernible decrease of the affluence of someone. However, this move is not possible, since it would mean a budge from the Pareto optimal situation. Indeed, why would the self-interested profit-maximising individual renounce any small extent of utility in favour of others, even if others' lives improved to a great extent owing to that?

These two examples above may demonstrate that with respect to the modern state, the Pareto optimality is not only not optimality, but a pitfall, from which the society must be released. In my view, the crucial task of the state is to release the society from the trap of the Pareto optimality and engender a more optimal state for the whole community.

In this context, it is worth mentioning that we know other optimality criteria and these coincide with our conceptions of the function of the state much more. Economic textbooks so far as they mention it, deal with these under the headword of social utility functions. Generally, three utility functions are specified.[17] According to the utilitarian approach related to Jeremy Bentham, the total utility of the society needs to be maximised. Each member is equal and the extent of social welfare derives from the sum of the affluence of the members of the community. In a peculiar manner, positing equality is insensitive to inequalities. If a member of the society owns 6 million HUF, whereas, the other owns nothing, it is of importance as if both had three million HUF. The optimality connected with Rawls reflects a contrary view. According to Rawls, the welfare of the society can be defined exclusively by the position of the member of the community in the worst situation. The most accepted social utility function is positioned between the two approaches above. This, as sharply simplified, sets out from the fact that "the profit of the rich individual needs to increase at a greater extent than the proportionate to compensate for the decrease of the profit of the poor individual."[18]

[17] See, e.g., Stiglitz, J. E.: *A kormányzati szektor gazdaságtana* (The Economics of the Government Sector). Budapest, 2000. 121–133.

[18] Stiglitz: *ibid.* 127.

It is apparent that optimality can have several other definitions apart from the Pareto optimality. While the Pareto optimality conforms to the market situation and the logic of the exchange, this does not justify, rather questions that we consider it a universal optimality concept, which can and must be always and everywhere applied. Although, we can hardly venture the definition of the function and the role of the state here, the society and the experts would basically agree that the role of the state is guaranteeing the welfare of the community and the support of individuals, who got into disadvantaged and defenceless situations through no fault of their own, what is more, even the decrease of social inequalities. If we consider any of the functions of the state, *the Pareto optimality as a standard with respect to the state is expressly inadequate*. What optimality is in case of the market, it can be a phenomenon to be avoided and corrected in case of the state.

The conditions of market optimality

Market optimality and optimal functioning has several conditions to be interpreted at several levels and from several aspects. Without trying to systematise these, I will select some determining conditions and examine these below.

Market failures

In some cases economists themselves admit that markets don't function perfectly. Generally, however, they think that (a) this scope of imperfections can be precisely defined (these are market failures) and (b) in sum their importance is relatively low and affect only a minor part of the functioning of economy. The most important market failures are as follows:

- The existence of public goods, when the enterprise is not interested in the production of the specific goods, since they cannot be sold as market products (e.g., defence, public roads).
- The existence of monopolies, which produce less more expensively than the market price.
- Externalities, when the market price does not reflect the social value of the specific goods. A typical case of the negative externality is pollution of the environment, when the value of polluted natural resources does not manifest itself either among the costs or in the price. A positive externality is e.g., when the trees of the orchardist provide nourishment for the bees of the apiarist.
- The so-called informational asymmetries, when the parties involved in the transaction are not equally informed primarily about the features of

the given product, e.g., the customer does not know all the essential features of the product.

Further factors also emerge, which may divert the functioning of the market from the optimal. Stiglitz[19] refers to the problems of the lack of balance, of the crises and unemployment, the frequent lack of the perfect competition and the queries of the rationality of actors. Weimer–Vining[20] mentions the issue of temporality: long-term agreements and insurances and generally uncertainty and its handling raise conceptual problems.

In these areas *neoclassical economists admit the imperfection of the market and perhaps, although not unconditionally, they approve of state intervention*. Below, I will formulate doubts and questions beyond these.

The rationality of the actor

According to the departing standpoint of neoclassical economics, the acts of the actors proceeding in market economy is characterised-motivated by the individual endeavour to maximise profits, rational consideration and decision that most perfectly guarantee this. This can be partly valid for enterprises, since the market functioning systematically selects those who are not able to make average or higher profits. However, positing a rational, profit maximising actor can be challenged at several points. Largely in an order of importance, these are as follows:

– preposterous. The informational asymmetries listed among market failures seem to be euphemisms. The essence of the problem is not uneven informedness, since if either the seller or the customer knows nothing about the product, there is no asymmetry, but there is no rational decision or market optimality, either. Namely, reaching a rational decision is possible in case of perfect informedness. Simon,[21] however, in the theory of satisfycing decisions proved half a century ago that rational decision is not possible, and if it is, it is probably not rational, if we consider it from a higher level. (Namely, the collection of information incurs higher cost than the saving deriving from the better decision reached this way.)

[19] Stiglitz: *op. cit.* 88–97.

[20] Weimer, D. L.–Vining, A. R.: *Policy Analysis. Concepts and Practice.* Upper Saddle River, N. J. 1989. 78–93.

[21] Simon, H. A. (ed.): *Korlátozott racionalitás (Válogatott tanulmányok)* (Limited Rationality. A Selection of Studies). Budapest, 1982.

– The decision of a significant part of the actors is not rational. The "end-users" in the economy are simple average individuals, who are on the one hand determining parts of the economic system, on the other hand persons embedded in the fabric of society. It is a century-long debate, whether we are directed by profit-maximising reckoning or factors coded in social culture, briefly, by interests or values. A prominent figure of contemporary social science, Jon Elster,[22] who is the follower of rational positing, demonstrates himself in how many manners the individual departs from the rational ideal. This is also supported by empirical research: the individual decision-maker, especially in so-called risk situations is almost unable to make actually rational decisions.[23] It is doubtful what "utility" means, which the consumer maximises.[24]
– The consumer is unable to make rational decisions. The consumer is most rarely aware of the actual features of the purchased product. A significant part of the goods, e.g., the so-called trust goods are expressly those the content of which cannot be summed up by the "customers". That is the situation in case of the overwhelming majority of services and the products that need expertise. The most typical example is healthcare, but we could mention the services provided by the lawyer, the accountant, the information scientist, the electrician or the plumber. Even the relatively simple products are most rarely homogeneous (probably the products of the commodity stock exchanges are such), and the differences among them remain concealed before use. Besides the difficulties of natural knowledge, the manufacturers devote enormous energy to influencing the choice of the consumer and they do so according to the sense not via the improvement of the otherwise unknowable quality features of the product. Instead, they have recourse to the instruments of shaping brand faithfulness, wrapping techniques, advertisements, etc. All these "market" techniques intend to

[22] In Hungarian: Elster, J.: Savanyú a szőlő (Sour Grapes). In: Csontos (ed.): *A racionális döntések elmélete. op. cit.*; Elster, J.: *A társadalom fogaskerekei* (The Cog-Wheels of Society). Budapest, 1995; Elster, J. (ed.): *Válogatás Jon Elster műveiből* (A Selection of the Works of Jon Elster). Budapest, 2002. 112–153.

[23] Hirshleifer, J.–Riley, J. G.: A bizonytalanságban hozott döntések elemei (The Elements of Decisions Reached in Uncertainty). In: Csontos (ed.): *A racionális döntések elmélete. op. cit.* 25–61.; Tversky, A.–Kahneman, D.: Kilátáselmélet: A kockázatos helyzetekben hozott döntések elmélete (Prospect Theory: The Theory of Decisions Reached in Hazardous Situations). In: Csontos (ed.): *ibid.* 82–112.

[24] Coase, R. H. (ed.): *A vállalat, a piac és a jog* (The Company, the Market and the Law). Budapest, 2004. 13.

divert the consumer (obviously with success) from the rational decision. The inherent element of the market competition is this intention to distort the competition.

All this has a further impact on the functioning of the market.

The market price reflects the social value

The basic condition of the optimal functioning of the market is that the market price should reflect the social value. This is by no means so in the case of externalities. Although, the relation is somewhat more indirect, perhaps it can be understood that informational asymmetries also entail the deformation of the prices, especially in case of the problem described above, namely, when the consumer does not know what s/he buys. The myth that the price somehow mediates the social value, for me is undermined by a concrete example, the advertisement. Although, advertising experts endeavour "to sell" this activity as providing information, it is not difficult to understand that the information value of advertisements is rather low (so far as a happy family, a lovely pussycat and a beautiful young woman has information value in case of e.g., a mobile phone, a car and frozen dumplings), what is more, their role is often expressly misrepresentation. Nevertheless, billions are spent on advertisement. Is advertisement really one of the most socially valuable activities? The value of the advertisement is that by manipulating customers' preferences, companies may increase their profits at the expense of others via the detachment of consumption from market rationality. Let's apprehend that market failures related to advertisements don't explain the difference between market price and social utility. This market segment with increasing share proves in itself the untenableness of the argument that "the price on the whole and in the long run reflects the social value". The price reflects merely the momentary market value and nothing else.

The competition

The prerequisite of the functioning of the market is competition. An extremely great number (an infinite number) of manufacturers and customers can be found on the ideal market. One of the basic theses of Marxist economics is that the market exhausts itself via the inevitable monopolisation. This is valid, if the marginal and average unit cost decrease owing to the increase of production (via the manufacture of not only 100, but 1000 buses). Therefore, neoclassical economists posit that with the increase of production, the marginal cost curve will not decrease to a certain point, but increase after that. Nevertheless, this astonishing phenomenon undoubtedly requiring explanation is nowhere explained–at least in the textbooks I know.[25] This needs to be accepted as a fact, since the attention is diverted from the fact of the absence of an explanation generally via charts and tables. Recently, economists have still commenced the examination of not perfectly competing, oligopolistic markets.

In fact, perfect competition is improbable for all that, since as we saw the goods are exceptionally homogeneous. The competition is less manifest on the market of Adidas track shoes. Namely, it is in the rarest cases that we encounter perfect competition on the real market, which is the prerequisite of the Pareto optimality.

The price of the exchange

The starting point of neoclassical economics is that while production has expenses, exchange has no ones. Having recourse to the comparison made by Coase,[26] who first raised the problem with great impact, this conception is of the nature as if we tried to describe the physical phenomena on the Earth without positing friction. The functioning of the market cannot be grasped without transaction costs, that is, the costs of exchange. This scope encompasses search and information costs, bargaining and decision-making costs, control and enforcement costs.[27] If there weren't such costs, the existence of companies would be unexplainable, since then the manufacture and assembly of machines, etc. would be solved by exchange. However, exchange has significant expenses and the functioning of the market is shaped significantly via the minimalisation of total costs, among them transaction costs. Transaction costs account for a considerable part of total costs emerging at the level of society. With reference to former empirical research, North[28] estimates that to be 45 p.c. (almost half) of the national revenues of the USA. This is the sum which neoclassical economics doesn't take account of.

The theory of transaction costs is the point of departure of neoinstitutionalist economics. Coase, North and Williamson agree that institutions in broad terms (organisations, systems of norms, etc.) are generally adequate for the decrease of transaction costs, this is what partly accounts for their existence.

[25] E.g., Stone: *op. cit.* 183–184.
[26] Coase: *op. cit.* 9–53.
[27] *Ibid.* 18.
[28] North: *op. cit.* 28.

Crucial institutions of the decrease of transaction costs are the state and law. This conception is reflected by the economic theory of law.[29]

Optimality in the absence of conditions

For a long time, economists were satisfied with the mathematical deduction of the conception that the market is optimal in case of the prevalence of adequate conditions. As far as I know, the conditions were not surveyed systematically and it was especially not examined how the absence of conditions influences the Pareto optimality. In essence, it was supposed that these divert the functioning of the market from optimality only to a small extent and perhaps various effects counter-balance each other (with the exception of the distorting effect of the state). Whereas, Greenwald-Stiglitz[30] proves that the absence of conditions not only certainly diverts the functioning of the market from the Pareto optimality, but it is frequently diverted to a large extent, which is intuitively not expected. They sum up their results as follows:

> The paper thus casts a new light on the First Fundamental Theorem of Welfare Economics asserting the Pareto efficiency of competitive equilibrium. The theorem is an achievement because it identifies what in retrospect has turned out to be the singular set of circumstances under which the economy is Pareto efficient. There is not a complete set of markets; information is imperfect; the commodities sold in any market are not homogeneous in all relevant respects; it is costly to ascertain differences among the items; individuals do not get paid on a piece rate basis; and there is an element of insurance (implicit or explicit) in almost all contractual arrangements, in labor, capital, and product markets. […]
>
> We have constructed a general model which shows that in all of these circumstances, Pareto improvements can be effected through government policies, such as commodity taxes. Our methodology not only identifies the presence of inefficiencies, but also enables us to identify both the appropriate direction of policy intervention and observable measures of their successful application. […]
>
> We have elaborated a general model, which shows that in all these cases a state intervention, such as e.g., the luxury tax facilitates a Pareto

[29] In Hungarian: Cooter, R.–Ulen, Th.: *Jog és közgazdaságtan* (Law and Economics). Budapest, 2005.

[30] Greenwald, B. C.–Stiglitz, J. E.: Externalities in Economies with Imperfect Information and Incomplete Markets. *The Quaterly Journal of Economics*, 101 (1986) 229–264.

improvement. Our method does not simply indicate inefficiency, but helps to find the proper direction and method of state intervention.

Stiglitz expounds and elaborates this thought later in several other essays.

Company Optimality

The analysis of economic concepts and myths concerning the market served primarily the elucidation and critique of the theoretical foundation of NPM. This is the ideological background, which generally underlies the conceptions related to the mostly negative value of the state and its function possibly limited to a narrow scope. The company functioning on the market determines primarily the ideal for the NPM, which public administration should follow.

Let's see what constitutes efficiency in case of the company, to what extent this efficiency is true and to what extent it can be applied to public administration!

The concept of company optimality

Adapting the concepts of systems theory, company efficiency *can be described with the formula of OUTPUT/INPUT*. This expresses that the working of the company is all the more optimal and efficient, the larger output can be reached with the less input. Input includes labour force, primary materials, machines and energy, whereas output includes the product itself, goods or services. This can be expressed financially. Input encompasses costs and expenditure, while output encompasses revenues. In this context, it is worth referring to the fact that the definition of profit can be described with the same factors: OUTPUT (revenues)–INPUT (expenditure), that is, *efficiency basically coincides with profitability.*

The efficiency of the company finds meaning on the market. Namely, the price of inputs and outputs is determined by the market. That company is successful which manufactures expensively marketable products with low costs. Positing that prices reflect social utility, that means that an efficient company is a company successful on the market and this company is efficient on a social level, as well.

The efficiency of *market mechanism* manifests itself in this, as well, since *it informs* the company about its efficiency extremely rapidly and precisely via prices. It does not only inform, but it also manages a *selective-rewarding* mechanism. The companies that work inefficiently and utilise relatively too much of social property, to which they contribute insufficiently go bankrupt and get selected out.

The queries of company efficiency

It is probably discernible on the basis of the above that *the crucial issue of company efficiency is whether the market price reflects social values. We saw that in general this is not valid.* It is possible therefore that the company is efficient according to the market prices, whereas, socially it is not. On the basis of the mentioned example: the advertising agency successfully deceiving the consumers is especially efficient on the market. Several further facts emerge concerning the efficiency of companies. Let me highlight the most important ones.

The efficiency of administrative units

In the large and complex corporate system it is basically impossible to determine how the specific organisational units contributed to the given extent of efficiency. In case of administrative units, it is especially difficult, what is more, impossible to determine the extent of their contribution to efficiency or profits. Who can tell the extent of the contribution of the accountancy, the HR department etc. to the efficiency of the company. The significance of the problem consists in the simple fact that public administration and governance are the administrative units of the public, of the society.

The self-interested management

It is a publicly known fact, which coincides with the point of departure of economics that individuals within the company generally take not the corporate, but their individual interests into consideration. E.g., Tullock[31] as one of the founding fathers of Public Choice theory claims that climbing a rung of the hierarchy is facilitated by intelligence as well as by taking not the corporate, but the self-interest (i.e., individual progress) into account. According to Tullock, this is less manifest at companies than in public administration, since the owner supervises the managers more closely. This argument is less valid at e.g., joint ventures. Several scandals of the recent years[32] (e.g., Enron) revealed that corporate management was interested in nothing else, but their own income and bonuses. Crozier[33] introduces the role of power games in

[31] Tullock, G.: *The Politics of Bureaucracy.* Washington D.C.: 1965. 18–21.

[32] e.g., Enron.

[33] Crozier, M.: *A bürokrácia jelensége* (The Phenomenon of Bureaucracy). Budapest, 1980.

organisational dynamics, Perrow[34] or Bakacsi[35] elucidate that the role of these is determining at companies, as well. Essentially, the principal-agent theory also dwells on this problem. Therefore, corporate participants are by no means motivated by corporate efficiency, thus, corporate dynamics is not necessarily characterised by this trend, either. Again, the question is whether the market is adequate for coercing companies into efficiency at an acceptable level.

Contingent luck in corporate success

According to the populational-economic trend of organisation theory, from among the contingent mutations of companies the one that survives in the long run is that which is more capable of adaptation to the changes of the environment unpredictable for the company.[36] All the management wisdoms are in fact hoaxes. Although, the statement is audacious, several facts seem to support it, among others e.g., the fact that sharply contradicting management theories prevail at the same time and the choice among these is determined rather by fashion than tested increase in efficiency.[37]

The applicability of the corporate model in public administration divergence or similarity of public and private management

Are the public and private, i.e., corporate management basically similar or divergent? The answers to the question are rather contradictory. Lőrincz, Lajos[38] points out that standpoints traversed historically in one or the other direction.

The classical essay most frequently referred to in the science of public administration,[39] which also draws on former works, recognises substantial divergences. Allison outlines public administration as one in which the *measurement and interpretation of efficiency is difficult, while it needs to meet other abstract and concrete requirements*. Abstract requirements include lawful and democratic working and safeguarding equal treatment, equity,

[34] Perrow: *op. cit.* 281–288.

[35] Bakacsi Gy.: *Szervezeti magatartás és vezetés.* Budapest, 1998.

[36] Kieser, A. (ed.): *Szervezetelméletek* (Organisation Theories). Budapest, 1995. 318–35.

[37] Powell, W.–DiMaggio, P.: *The New Institutionalism in Organizational Analysis.* Chicago, IL, 1991. 26–27.

[38] Lőrincz L.: Közigazgatási reformok: mítoszok és realitás (The Reforms of Public Administration: Myths and Reality). *Közigazgatási Szemle,* 2007, 3–13.

[39] Allison, G. T.: Public and Private Managers: Are They Fundamentally Alike in All Unimportant Respects? In: Lane, F. S. (ed.): *Current Issues in Public Administration.* New York, NY, 1982. 134–151.

openness, etc. These can easily collide with the requirement of efficiency, which thereby is only one of the requirements. It is a peculiar paradox that in case of public administration these requirements frequently colliding with short-term efficiency can in the long-run become the pledges of social efficiency. Democratism, the safeguards of constitutionality protect from the brutal rationality of bureaucracy, which, when distorted into a dictatorship, threatens the whole society.[40]

Public administration needs to meet concrete requirements, as well, such as the expectations of interested social groups and their interest representatives, the branches of judicial and legislative powers. The management of the public sphere as manifestly opposed to the business sector takes place by the permanent control of the media. Openness also pertains to a broad scope of citizens.

There have always been approaches, which *emphasise the similarities of public and private management*. These don't regard the divergences as important or construe them as anomalies. Essentially, this approach characterises NPM, as well. Below, I will bring up arguments for the issue why the management of public administration as a quasi company is inadmissible.

Efficiency and effectiveness

Via an oversimplification, efficiency refers to the already mentioned OUTPUT/ INPUT formula, whereas effectiveness refers to the extent of the achievement of a goal. These two factors are the same in case of a company: both coincide with the possibly highest profit. What is more, according to market ideology, both guarantee an optimal level of social welfare, that is, efficiency on a social level. No doubt, in the absence positive social impact, companies could be still efficient and effective on the actual market. (See, e.g., successful advertisement agencies).

A basic concept of the theory of public policy and public administration is *the separation of efficiency and effectiveness,*[41] and *in another dimension, the distinction of efficiency measured and construed on the level of the organisation and of the whole of public administration.*[42]

[40] This was referred to by Weber, when he considered more democratically functioning states altogether more efficient than the extraordinarily efficient Prussian public administration. See, Albrow, M.: *Bureaucracy.* London, 1970. 64.

[41] Hajnal, Gy.–Gajduschek, Gy.: *Hivatali határok – társadalmi hatások. Bevezetés a hatékony közigazgatás módszertanába* (Office Boundaries–Social Effects. Introduction into the Methodology of Efficient Public Administration). Budapest, 2002. 11–14.

[42] Lane, J.-E. (ed.): *Bureaucracy and Public Choice.* London, 1987. 23–24.

We have seen that in case of the activity of administration, efficiency can be rarely defined. The application of the OUTPUT/INPUT formula is especially difficult in the public sphere, since outputs (public services) generally have no actual price, and even expenses can be frequently hardly defined. What is even more essential: in the public sphere, the actual value of the output is determined by its social effect. Public administration is effective, if it fully complies with its objective, the increase of social welfare, since this is the objective of public administration. Therefore, *effectiveness queries social effect, whereas efficiency refers to the amount invested to reach this effect*. Of course, the amount invested encompasses not only the input of public administration, but social expenses as well, of which the company takes no account, unless the state charges them to the company.

It follows from the above that a specific public administrative organisation can be efficient (and even effective in a narrow sense), while it is not efficient from the viewpoint of the society, therefore, of the whole public administration. Thereby, the Labour Office can send unemployed people in great numbers to retraining courses (which is one of its major tasks), which work very cost-efficiently (a lot of people are trained at high level, in a large number of hours at low cost). Therefore, the organisation can be considered effective and efficient. At the same time, if the content of the training is not adequate (e.g., dressmakers are retrained to be miners), the activity will be unsuccessful from a general social point of view, and thus, its efficiency will be essentially low.

In a summary: *in case of the public sphere, the company efficiency index is practically incalculable. Since in the public sphere the standard of value of the activity is not the financial profit, but the positive social effect, therefore it is not really relevant*, since the prices do by no means reflect the social value.

Client-orientedness and authority matters

Companies endeavour to meet most of all the consumers' demands, so that their products are chosen. One of the objectives of NPM is the reinforcement of client-orientedness, in the area of which results have been achieved the most unambiguously. I claim however, that the satisfaction of clients is not necessarily an asset.[43]

[43] I elaborated elsewhere, how peculiar client satisfaction is, which may as well work out in opposition to the actual achievement. Gajduschek, Gy.: *Módszertani útmutató a hivatali ügyfélelégedettség méréséhez* (A Methodological Guide to the Measurement of Client Satisfaction in Offices). Államreform Bizottság honlapja (Homepage of the State Reform Committee), 2005. Here, however, I do not dwell on this.

Is it auspicious if the police is evaluated on the basis of the satisfaction of criminals, or if the criminals can choose which investigating authority should proceed in their case? Is it a favourable sign that the banks are basically satisfied with government control? A part of the tasks of the state is public service, the beneficiary of which is the individual citizen (education, healthcare, social services, public transport, etc.). In these areas, which developed good half a century ago with the appearance of the welfare state, the opinion and satisfaction of those concerned can be an important and relevant index.

The other part of state tasks prevailing for thousands of years is the so-called authoriative activity, typically various types of law enforcement. Proceeding as such, the state intervenes against the client and incurs inconvenience (prohibits, obliges, fines, raises taxes, etc.). Although, it does so in favour of the community, all the other citizens, but they do not directly appear as clients in this procedure. Briefly, the market mechanism attached to "the direct consumer", which can be very useful on the market, may lead to a deformed feedback opposed to real assessment in this fairly significant area of state activities.

The market mechanism does not work

The market cannot attend to and has never attended to the majority of state tasks. The market is unable to provide public goods. At other times, the market optimum obviously departs from the social optimum and from that which the large majority of the society considers the social optimum (e.g., everyone should get elementary education).

We need to remark that most NPM techniques do not dispute this fact. Instead, they would sustain the state as a financier, although, the task would be expressly performed by the organisations of the business sector or market mechanisms would be applied. The explanation of NPM is the increase of efficiency. An alternative, not less plausible explanation is that *NPM is an ideology, which favours enterprises, especially larger business enterprises*[44] via opening up new market segments and the generation of large procurments for capitalist groups.

[44] Farazmand, A.: Privatization and Globalization: A Critical Analysis with Implications for Public Management, Education and Training, *International Review of Administrative Sciences* (IRAS), 68 (2002) 355–371.; in Hungarian: Hajnal, Gy.: *Igazgatási kultúra és New Public Management reformok egy összehasonlító esettanulmány tükrében* (Management Culture and New Public Management Reforms as Reflected in a Comparative Case Study). Ph.D. Dissertation. Manuscript. Budapest, 2004. 34–37.

Risks

Acknowledging that competition is the guarantee for efficiency, this conceptually entails that certain companies go bankrupt. Is it acceptable that organisations serving the whole society or large communities simply disappear, so that their tasks are not performed by any party in the short or long run? E.g., water, electricity, gas supply and the drainage system, prisons, the maintenance of public order and education.

Empirical data

Of course, it is the most convincing, if we examine empirically whether the public or private organisations work more efficiently. This, however, beyond the methodological problems encumbering comparative research, is impeded by several obstacles. There are relatively few areas, in which we find both public and private organisations, and if we do, they frequently appear not to perform the same activity (e.g., expensive private schools). For limitations of scope, even the rough survey of methodological problems is impossible. Instead, I will attempt below to introduce the results of empirical research published in this subject-matter in the broadest possible scope. (A more detailed summary: Gajduschek.[45])

Weimer–Vining[46] surveyed the publications published before 1989. The authors found that from among the reports of research carried out in the scope encompassing electricity supply, air travel and fire service, 65 claimed that the performance of tasks by private organisations was more efficient and more successful and only 7 found that the performance of tasks by a community was more efficient, whereas in 19 cases no unequivocal conclusion could be reached. Since I did not find a similar comprehensive and summarising study, I tried to survey the studies published in the meantime myself. Unfortunately, I could identify only 16 empirical comparative studies, but I didn't find a single one, according to which the performance of tasks by a community organisation was more efficient. Nevertheless, in the majority of cases methodological aspects can be raised, which query the final conclusions.

[45] Gajduschek, Gy.: Közigazgatási eredményesség – Piaci hatékonyság? avagy Alkalmazható-e a piaci ideál a közigazgatásban (Success in Public Administration–Efficiency on the Market? or, Is the Market Ideal Applicable in Public Administration?). In: Lőrincz L. (ed.): *Eredményesség és eredménytelenség a közigazgatásban* (Success and Failure in Public Administration). Budapest, 2009. 67–72).

[46] Weimer–Vining: *op. cit.* 195–200.

The other approach is the examination of the effect of NPM. This consists in the transfer of the solutions of private managemet and the market mechanism to the practice of governance and public administration. Therefore, the question can be raised whether efficiency increased as an effect. The data in this case are not clear and convincing, either. In the 5th chapter of their book analysing the results, Pollitt–Bouckaert[47] emphasise that the increase of efficiency can be construed on several levels (they distinguish four levels), but unambiguous index-numbers cannot be defined on any of the levels and convincing data do not obtain. At the same time, NPM seems to have been able to restrain the rate of state expenditure increasing for centuries and gradually accelerating in the previous decades. The authors also establish that competition situations generally improve efficiency disregarding whether we are talking of a public or private organisation. It is an interesting but not a surprising statement that while NPM considers the satisfaction of costumers one of the most decisive aspects and as an effect "client-orientedness" gains ground, according to data, the trust in public institutions and public services significantly decreased specifically in the countries of NPM.

As several experts and more and more simple newspaper articles highlight, the price of the contingent increase in efficiency achieved by NPM must be paid elsewhere. That price consists in the absence of long-term investments, the decrease of safety, the exclusion of problematic clients (vis-a-vis of equal access). Of course, NPM affects the whole state, as Rhodes in his article establishing a concept (Hollowing out of the state) wrote the state erodes mostly as an effect of NPM. This emerges in *the absence of co-ordination*, the sectors function in a fragmented manner and the left hand frequently does not know what the right one is doing. *The perspicuous relations of responsibility dissolve*, since instead of the former lucid (bureaucratic) structures, several actors in various positions appear, among whom the relations are mostly puzzling (contractual, subjected, political, client, etc.). As an effect, *the public policy making capacity of the centre weakens and the political control over public administration*, which is the pledge of democratic functioning, *also weakens considerably*.

A rough assessment of the Hungarian situation

In Hungary, NPM evolved at the same time as the change of regime, which implied the radical transformation of the functioning of the state and the economy. Both the change of regime and NPM channelled the changes in the

[47] Pollitt–Bouckaert: *op. cit.*

same direction: the decline of the role of the state and the reinforcement of market processes. Therefore, it would be both theoretically and empirically *difficult to detach the role of NPM within the process of the change of regime*. This role may be most identified in the conscious diminution of the state, and within this, of public administration and in the maximisation of the opportunities of the business sector.

The change of regime undoubtedly entailed notable and *shocking changes* in several elements. Beyond the decrease of the power of the state, the changes led to *the uncertainty of the scope of state*. On the other hand, *a part of the instruments* formerly applied for the performance of state tasks *became legally prohibited, another part of them became socially and management-technically inadequate*. As for me, I think that the final result of the process is the emergence of *the impotent state*, which is incapable of the performance of its most elementary tasks: incapable of the maintenance of order and the enforcement of the law.[48]

In line with the change of regime, the establishment of the framework of the Rechtsstaat also took place. It may be due to the natural oscillation of the pendulum that a kind of hyper-Rechtsstaat was formed with safeguards for individual rights (at least on the face of it), which frequently surpass the similar institutions of the most developed democracies. From the viewpoint of our subject-matter, this entailed that the state and especially public administration became almost perfectly jeoparadized without its instruments used before. It became incapable of control of the illegitimate methods manifesting themselves in the business sector.

The solutions of NPM were originally introduced in relatively well-functioning states. Whereas, in post-socialist states *NPM* in line with the hyper-Rechtsstaat *was thrust on a confused public administration unestablished as to its function, structure, functioning and administrative culture*. Thereby, NPM did not serve the improvement or reconstruction of former solutions (of the welfare state), but *increased the chaos* exclusively in favour of those wishing to fish in troubled waters. The practical foundations, on which NPM could really contribute to the increase of efficiency, were also missing. *The well-functioning market is missing*, as there are several actors (sellers) that can perform specific tasks (eg. Road construction). The few existing sellers are not reliable. The well-functioning *legal system* is also missing, in which crystallized contractual-institutional techniques exist for the employment of private organi-

[48] Gajduschek, Gy.: *Rendnek lenni kellene* (There Should Be Order). Budapest, 2008.

sations for the performance of public tasks.[49] Underlying all these, the necessary political, administrative and business *culture and ethics* are missing.

As early as in the mid-'90s, Verheijen[50] as a single among foreign experts warned of the dangers. Summarising the results of a research which analysed the public administrative systems of the Central-Eastern-European region and the effect of NPM, he pointed out that

– in these countries, where coordination was always a problem, NPM further exacerbates it, and beside the absence of the horizontal coordination among ministries, generates the absence of vertical coordination;
– perplexes totally the otherwise problematic relations of responsibility, since NPM intends to supersede bureaucratic responsibility for the utilisation of resources by responsibility for achievement, however, in a Central-Eastern-European context this rather entails the total collapse of the system of responsibility;
– the continuity so important in public administration is terminated;
– NPM reforms lead to the politicisation of public administration in the region.

The statements of Verheijen seem to be confirmed by the facts.

In the absence of significant empirical research, we can merely draw on impressions or hypotheses, if we question the main promise of NPM, i.e., the increase of efficiency. We know numerous scandalous stories from the press encompassing motorway constructions and the procedure of the sale of the buildings of public organisations to enterprises, which are then rented by the same public organisations, thereby, they reimburse the whole purchase price as rent in 2 or 3 years, etc. *Therefore, we can hardly attribute an efficiency increasing effect to NPM in the region*. Carrying things to extremes, it functioned as an instrument of the illegitimate privatisation (i.e. stealing) of public property.

Summary and Conclusion

In this essay, I criticised the ideology of "market-corporate is good, state public administrative is bad", which manifests itself most directly in New Public Management, which is supported by mainstream economics and Public Choice theory.

[49] Horváth M. T.: A magánszektor és a decentralizáció szerepe a közszolgáltatások szervezésében (The Role of the Private Sphere and Decentralisation in the Organisation of Public Services). *Jogtudományi Közlöny*, 54 (1999) 18–35.

[50] Verheijen T.: Commentary on ... 'Western' public management. PA Times, 20 (1997) 3, 12.

In my hope my arguments have raised doubts concerning the conviction that market competition and exchange are some primeval and optimal social organisation, which reinforces the greatest virtues of the individual and at the same time grounds the democratic establishment.

I suppose I have succeeded in undermining the statement that the market is really efficient. I think it is even more essential to introduce the conception that the specific efficiency of the market, the Pareto optimality cannot be applied to state activities, what is more, one of the basic tasks of the state is a displacement from the Pareto optimality (if that prevails).

The queries concerning the applicability of the corporate ideal may have also raised doubts. This can be reinforced by the fact that even if international experiences are conflicting, Hungarian experiences, although they are not processed scientifically, seem to be unequivocal. Here, NPM has not even been increased economic efficiency. On the contrary: NPM has led to waste and an increased level of corruption.

All these are mere arguments. Concerning NPM, critical voices have been more and more emphatic in international special literature for almost a decade, which has not had considerable effect yet. The ideology idealising business life and the market was swept away by the great depression in one or two months. I am afraid from this time on, we will hear exclusively the voices of criticism (the loudest will be the former preachers of NPM). In the meantime it is to be feared that employable solutions will also vanish into thin air (as usual), although there were some.

As for me, I see two large, basically different areas of state activities. One of them is authoritative activity, in which the state proceeds with the instruments of power against the citizen, for whom it generally incurs "inconvenience" in the interest of the community. The other is the area of public services, which became determining primarily with the emergence of welfare states, and as such, it is a new state phenomenon, although, the overwhelming majority of the resources of the budget is spent on such purposes. In these areas in the majority of cases it can be relatively precisely defined who the "consumer" is, the party to whom the state provides something, and what the content of the service is. Of course, this separation is extemporaneous,[51] since several public

[51] The legal conception of Hungarian public administration recognises only the first element and construes the second one primarily in this theoretical framework. The Anglo-Saxon conception, however, regards everything as public service, therefore, construes everything on the basis of the logic of "services". As for me, I think the unelaborated nature of the two theoretical approaches is a great deficiency of the science of public administration. The differences and similarities and their consequences are unclear.

administrative activities can't be classified to either area, whereas several activities can be classified to both areas. Nevertheless, this separation can ground the decision on the application of NPM techniques. Namely, the activity of the authority follows a basically different logic from that of the market (it is not accidental that this one has been a state activity for several thousand years). Whereas, in the area of public services the application of market mechanisms can have several advantages.

Let me remark that the market is an extraordinarily auspicious feedback mechanism for the company. It informs the company rapidly, reliably and unambiguously about the market assessment of its achievement via prices. What is more, it does not only inform but at the same time also sanctions and eventually selects out the company with low achievement according to the value judgement of the market. It would be difficult to deny the advantages of this mechanism vis-à-vis the political feedback mechanism, which supervenes basically at the elections every four years, which is only indirectly related to the real achievement of the state and of politicians governing the state and to be elected. In case of the state designed to serve the community, the market feedback mechanism has a remarkably significant deficiency, namely, that market prices do not reflect the scale of values of the society, which contradicts the declarations of economists. So far as the state can correct this by representing the social values or at least approaching these, the orientation via prices and strengthening the competition can be expressly advantageous in several areas of public services.