

## **Public management policy initiatives of the Lula's government**

**Francisco Gaetani**

### 1 Introduction

Seven months after Lula's inauguration the new government public management policies look preliminary, fragmented and, in some areas, cautiously promising. There are emerging signs of increasing activities within the public management segmented policy domain, in spite of the low profile of the issue in the Presidential Agenda. There are some thin empirical evidences suggesting that the government can tackle traditional bottlenecks of a public management policy agenda like personnel, organizational design, control, corruption and efficiency. It is too soon to say how effective will be the government performance in its intents. But for the time being there are no doubts that some sectors should be carefully monitored as potential sources of important policy developments.

The argument presented in the text suggests that the issue image delineated by the Workers' Party (PT) government with respect to public management is "policyzation", in contrast with "professionalization", in the 1980s during the redemocratization process, and managerialization, during Cardoso's first mandate. By policyzation I mean an emphasis in structuring and projecting actions in terms of policy-making categories within the context of a processual perspective – like in the case of the on going efforts carried out by the Ministry of Planning, Budgeting and Management (MPOG). The emphasis during the existence of the Secretary of Public Administration (SEDAP – 1986-1988) was to create a professional bureaucracy a la progressive public administration style. Conversely, Bresser Pereira's reform gravitated around managerial principles destined to flexibilize organizational and personnel structures. Neither in the former state reform attempt nor in the latter one integrated the core of the executive agenda, in spite of the personal relationships of the respective ministers with the President of each period.

The text is organized as a comment of Lula's government first semester in the area of public management. The text identifies policy commonalities in all areas in which public management initiatives have been started since January 2003. The text argues also that a critical challenge faced by the new government in the public management domain is to overcome the fragmentation and lack of articulation of these initiatives, as well as to provide co-ordination to the governmental efforts in this field.

The Workers' Party victory in November 2002 elections represented a new stage of Brazil's transition to democracy. For the first time a coalition formed to face the candidates of the elites won the presidential elections – an unquestionable (and peaceful) demonstration of rotation in power without precedents in Brazil and most unusual in Latin America itself. Lula's rhetoric, however, did not emphasize issues like state reform echoing the re-democratization years of the 1980s. The campaign was dominated by concerns that matched the need to demonstrate Lula capacity to rule with the political harangue of change towards a less unequal society.

Cardoso public management legacy was not negligible despite its many contradictions, failures and conspicuous incompleteness. Several initiatives were implemented during his first and second mandates with heterogeneous results. All public management areas – organizational design, personnel, procurement, planning, budgeting, financial expenditure, auditing, control, and e-government - were object of governmental action. Some of these activities showed promising results in the face of an acute lack of coordination. Others did not due to flaws occurring either in their design or in their

implementation.

Lula's proposals, initiatives and achievements in the area will be deeply influenced by the way the government defines public management problems, the institutional platforms chosen to pilot the challenges, the mechanisms adopted to support policy choices, the content of the decisions taken, the implementation capacity building process of the government, and last but not least, the amount of attention that the president and his inner circle pay to the issue.

The text is made up of five parts. First, I put forward an analysis of the public management policies as laid out in the PT manifesto and in the party's main documents. Second, there is a brief comment of the transitional period during which many critical decisions were taken with enduring consequences for the public management policy domain. Third the main areas of public management policy initiatives are identified. Fourth, there is an assessment of the status of current debates. Finally, the conclusion points out some potential spillovers of the current processes and identifies trade-offs the new government faces in the public management policy-making process.

## 2 Public Management Policies in the Worker's Party perspective before sizing power

The "PT way of governing" was not clear about public management policies in spite of several mandates in local government (including important state capitals) and states. The general principles suggested a Progressive Public Administration rhetoric because of the emphasis on professionalism, merit, universalism, transparency, and anti-corruption concerns. The PT practice was not particularly innovative in the public management area<sup>1</sup>, in contrast with the party social policy successful initiatives. Paradoxically, the expected civil service reforms did not occur in PT government (as well as in others).

The Workers Party political manifesto for the 2002 Presidential campaign was a juxtaposition of several proposals of sectoral policies. And public management was not one of them. An obvious consequence was the absence of a State Reform or Public Administration ministry in a cabinet constituted by thirty-five ministries. There were no constituencies to be catered to nor there were any policy entrepreneurs in charge of taking up that sort of challenge. Even so, the rhetoric of policy change with respect to public management policies was centred on a Progressive Public Administration type of proposal. The emphasis was on the adoption of merit based system, professionalization mechanisms, anti-corruption practices and social control of the state activities. There was also a benign view of the state role as well as of the public sector employees in contrast, for instance, with the public choice critique of bureaucracy.

An analysis of the PT experience at state level (Belchior, 2002) suggested that there was no clear framework that could be described as a party's credo with respect to State Reform. The sole area in which all three state governments – Rio Grande do Sul, Mato Grosso do Sul and Acre - had produced common efforts towards policy change was the relationships between state and society. But even in this area there were no stylized models despite their common inspiration in the participatory budgeting experiences adopted at local level. The Workers' Party's governmental experience valued experimentation, commitments and efforts. There were also important initiatives in traditional areas like e-government, fiscal policies, anti-corruption mechanisms and others. But none of them could be described as a distinctive new way of dealing with public management policies.

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<sup>1</sup> The classical exception was the participatory budgeting process, a hallmark of PT local governments. However the participatory budget looks more a government type of state – society articulation than a budgeting public policy.

The landscape was different at local level. The Workers' Party has governed important cities since 1988 and the accumulation of critical mass is more significant than what occurred at state level. The successes in different areas like social programs were publicly recognized by best practices national competitions like the Ford Foundation – Getúlio Vargas Foundation annual awards. The creativeness, public orientation and engagement of the local authorities with meaningful social outcomes became features of the Workers' Party' commitment with social changes.

By far the most important innovation of the Workers' Party in the public management policy domain was the adoption of the participatory budgeting. In submitting parts of the investment budget to public scrutiny PT tied social participation in defining priorities to the planning process. The mechanism is now disseminated through more than a hundred of municipalities under multiple parties, in a multitude of institutional arrangements. In spite of the indisputable success of the initiative at local level the attempt to transplant the mechanism to the state level did not work. The scaling-up of the mechanism denied actors the face to face relationship established once enjoyed at the local level where the participants were grouped so as to allow full official commitments to the targets established by grassroots associations.

### 3 Features of an inevitably unpredictable transition

The clearer the perspectives of Lula's victory the smaller the chances of the government reinforcing public management policies. Focus was maintained at the Ministries of Planning, Budgeting and Management – which was expected to be one of the most important of the government – and Finance – paramount to strike a compromise with the national and international markets. In few weeks, however, the landscape changed three times.

First, the success of Antonio Palocci as Coordinator of the Plan of Government put him in great evidence in such great evidence in the public eye that the investors and market forces practically chose him to be their favored interlocutor. Palocci was initially tipped to take the office of the Minister of Planning, Budgeting and Management which was supposed to be a strategic post at that stage of the transition. But he demonstrated such effectiveness in calming down the private sector concerns that Lula appointed him to be the Ministry of Finance.

Second, the Ministry of Planning, Budgeting and Management became part of coalition building negotiations that intended to expand the government support in the Congress. The ministry was reserved to attend the PMDB demands while other areas of the government. The alternatives were kept open until the week of Christmas. But the negotiations did not result on PMDB participation on the cabinet. Therefore, the transition period was not productively used in the context of the planning, budgeting, and management jurisdictions because of the lack of top definitions that blocked the appropriation of the problems that occurred in other areas.

Third, Mantega – Lula's economic advisor - was one of the last names to be appointed. Thus, the names of the important secretaries of Planning, Management, and Human Resources took a long time to be announced and confirmed. And if one thing did stand out was the fact that they were not members of the same policy community and did not share common administrative experiences until the very moment they joined the same government. The main consequence of this understandable, and yet puzzling delay was the surmounting of overwhelming demands stemming from the creation of new ministries which set forth the reorganization of administrative structures and the reviewing of positions grades and numbers in the first months of government.

There were also persistent rumors related to the possible creation of a Ministry or a Secretary of State Reform echoing the beginnings of previous presidential terms. The option was discarded because of the lack of political appeal of the ministry, the absence of a natural Worker's Party candidate to be appointed, and the difficulties of the new government in dealing with a complex issue at the same time that much more self-explanatory demands for creation of ministries had to be addressed.

The new government was installed at the same time that several ministries and secretaries of state were created. Lula's cabinet became the biggest of Brazilian history and overcame the number of ministries created when Neves was indirectly elected president during the redemocratization period. The myriad of new ministries generated a strong pressure on the Office of the Chief of Staff – indeed a ministry in its own right within Brazil's political structure – and on the Ministry of Planning, Budget and Management. The task of approving structures and negotiating quotas of appointed positions absorbed enormously two key areas of both ministries: the Office of the Chief of Staff and the Ministry of Planning, Budgeting and Management (MPOG).

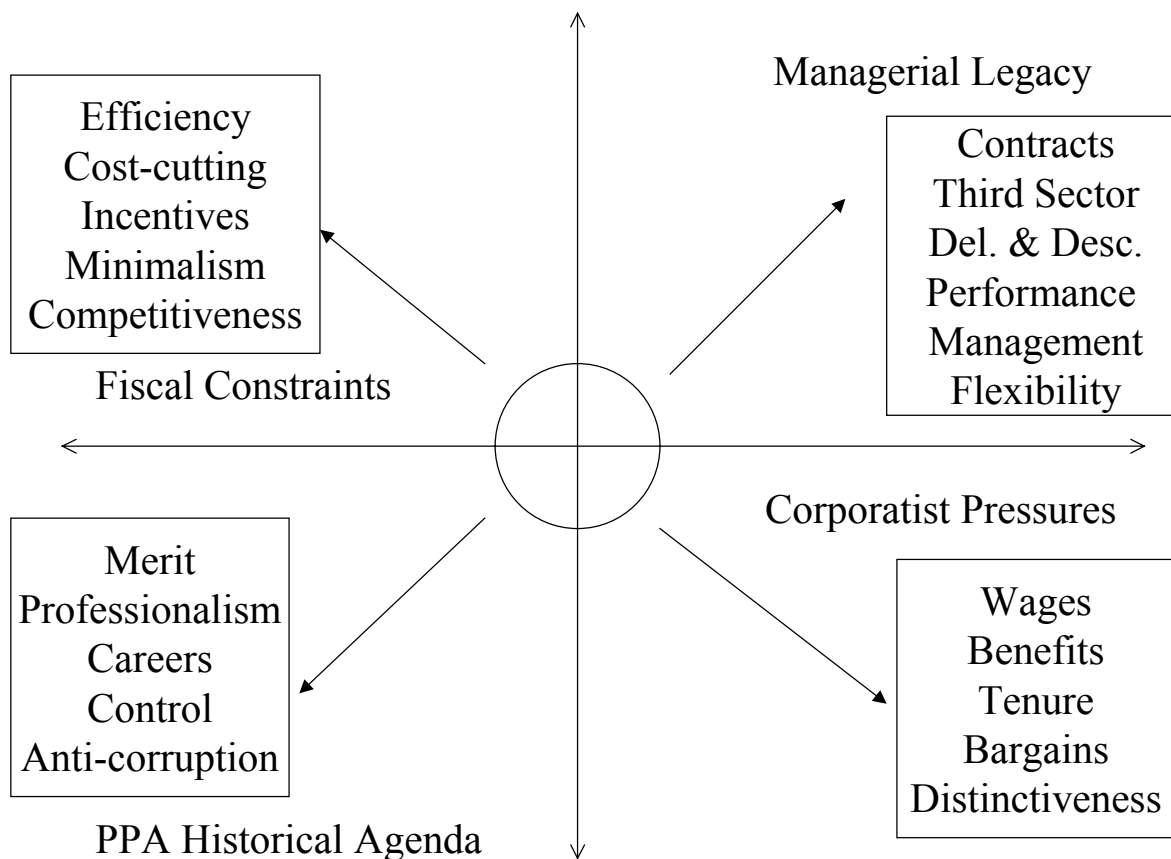
Both areas showed the capacity of generating policy formulations despite the building up of overwhelming political pressure and a staggering amount of work. The Office of Chief of Staff attacked two key bottlenecks of the new government: the regulatory framework and the challenge of unifying social policies. MPOG embarked in an instigating and ambitious public management policy formulation destined to provide guidance to the new government in areas related to its mandate (MPOG/SEGES, 2003). It is not clear yet if the two areas have enough capacity and political power to deliver but their initiatives provide the most important inputs for public management policies in the first months of Lula's presidency.

#### 4 The public management policy landscape: towards pluralism

The first steps of the new government in the public management area were not evident. The Minister of Planning, Budgeting and Management lined up a team of different sorts of professionals to head each of his key Secretaries. The Secretary of Planning and Strategic Investments was taken up by an experienced development economist. Two budget men were appointed to the positions of Vice-Minister and Secretary of Budgeting. An entrepreneurial consultant – but also a civil servant on leave - was appointed Secretary of Management. A lawyer specialized in labor affairs was appointed to be the Secretary of Human Resources. The number three of the Ministry had had some previous experience at state level. The President of the National School of Public Administration was a civil servant who became an important political cadre after accumulating significant executive experience. The team was heterogeneous and the Minister himself seemed to feel more at ease with political economy issues than with planning, budgeting and management issues given his previous background.

The march of the government replaced the initial cacophony with the putting in place of some incipient guidelines. It is soon to say that there is an evident direction with respect to public management issues. On the contrary, there are several directions in tense interaction under the discrete leadership of the Minister. Figure 1 shows the four vectors in action: the economicist, the managerialist, the corporatist, and the bureaucratic.

Figure 1 Trends in interaction



Fiscal concerns have been deeply linked to the debate about public management policies in the last ten years. Since the implementation of the Real Plan (of macroeconomic stabilization) in 1993 the country recovered its economic calculus capacity, after decades of inflation. However, there are no signs that the fiscal constraints will be relaxed with respect to personnel.

Corporatist pressures returned to the arena after fifteen years of absence. Since the redemocratization years of the New Republic civil service unions had not participated in human resources policies discussions as legitimate interested parts. There are some inevitable contagious effects derived from the debate about social security reform. But the main novelty lies elsewhere: unions are now treated as political actors in institutional negotiations thanks to their importance as constituencies of the Workers' Party. The last time they got a political high profile treatment was during the National Constituency Assembly in 1987-1988.

Managerial ideas were disseminated in different levels of government and in distinct sectors of the economy since the early 1990s. The influence of private sector ideas and Bresser Pereira's managerial legacy is evident in the debate. Moreover, the pluriannual plan embodied performance management principles as well as installed important sets of routines thanks to information technology developments

The progressive public administration historical legacy is present in the demands for the

professionalization of the civil service and empowerment of the merit system. The Workers' Party's manifestos has always stressed its commitments with the merit principles and anti-corruption practices. The party's record, however, was more impressive in the latter than in the former.

What is missing in the picture? The fragile balance between the resistance to patronage and the use of gray-area mechanisms like contracting out personnel through controversial legal instruments like international institutions, university foundations and information technology providers. The government is aware of the difficulties and created a kind of Human Resources Council in order to tackle the issue. Public selections for strategic careers have also been resumed. But even more important, the Secretary of Management produced a general framework in order to clarify government guidelines in terms of public management policies.

A preliminary document (SEGES/MPOG, 2003) suggests that if the state is supposed to play a more active role in tackling inequality, more attention is required with respect to the quality and productivity of the public expenditure (SEGES/MPOG, 2003: 2). The emphasis is on institutional development of government in order to make the State work through its ordinary processes like the Pluri-Annual Plan (PPA). The rhetoric incorporates usual concerns in this type of manifesto like traditional buzz words such as efficiency, transparency, participation, citizenship and others.

The main novelties are the positive and paced approaches proposed by the Secretary of Management. There is a processual dimension implicit in the suggested guidelines. The "colorful"<sup>2</sup> aspects of the plan of action suggest that the government will adopt a scheduled step-step approach to deal with the issue. There is a clear concern with diagnosis and tailored solutions to specific problems. At the same time, there is significant emphasis on taking into account participation and legitimacy aspects. It is yet to be seen to what extent the government as whole and the MPOG in particular will succeed in implementing the announced proposals. But SEGES/MPOG proposal is the most promising indicative of a public management policy of the new government.

## 5 Public management policy initiatives in related areas

Some public management policy initiatives have occurred out of the jurisdiction of MPOG, which is a clear sign of how the problems are forcing the government to deal with its difficulties irrespectively of formal mandates. Four areas deserve attention: social policy co-ordination, the regulatory framework, control via lottery and the introduction of participatory mechanisms in the elaboration of the Pluri-Annual Plan.

### 5.1 The unification of income cash conditioned transferences

The "Zero hunger" Program was stated as the first presidential priority declared in Lula's inauguration speech. The new government immediately signaled its commitment to the poorest social groups. The creation of a ministry without portfolio to be in charge of tackling hunger (MESA) was followed by a presidential decision of improving the coordination of social policies. The government created the Social Policy Council chaired by the Office of the Chief of Staff in order to rationalize and articulate

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<sup>2</sup> SEGES' text proposes the elaboration of five official documents in order to organize the governmental public management policy. The first one is Brazil in numbers – a quantitative diagnosis of the federal public administration. The Yellow Book is a methodological text, oriented to provide a diagnosis of the institutional structures of the Brazilian state. The Blue Book provides a global and complete diagnosis of the Brazilian federal government. It incorporates both of the previous texts. The Green Book is centred in the Management Model of the PPA. The White Book refers to the general framework to be adopted and includes managerial instruments to be incorporated within the process.

the actions of the social ministries. The next step was to identify a first target: unifying social programs based on cash transference principles and the database used to identify beneficiaries.

Cardoso's government created several income transferences programs in distinct social areas like education, health, labour and utilities (gas). But at the end of 2002 the government had four programs without any integration mechanisms. The national audit body – Tribunal de Contas da União (TCU) – made a report in the first semester of 2003 that pointed out the problems in the database social programs were run upon. The inefficiencies of the previous arrangements became immediately evident when the new government came to office. President Lula's decision signaled an obvious differentiation with respect to the Cardoso's approach. The President voiced an explicit concern with producing efficiency gains, synergy in the field, and making the best possible use of the resources available to the broadest possible population.

The president chose his personal advisors to support the Chief of Staff. In doing so President Lula signaled an unusual personal commitment with a process characterized by an indeterminate outcome. Dealing with inter-agencies and intergovernmental programs is a difficult task because it involves distinct institutions at different levels of government. The heterogeneity of the organizations and the political elements inherent make the coordination job complex and demanding for anyone in charge of the role.

The Office of the Chief of Staff and the Presidential advisory unit took over the difficult task of coordinating several meetings called to merge all programs in one in order to produce efficiency gains and to target a wider population. The main aim has been to overcome sectoral perspectives on behalf of a comprehensive articulated approach. The President has explicitly emphasized his personal interest on the process and delegated to his key advisors the mission of supporting the Office of the Chief of Staff..

Some preliminary evidences of the first rounds of meetings of the Social Policy Council suggest that the President touched a sensitive nerve of the governmental modus operandi when decided to tackle a transversal social policy and subordinate it to the government's main priority. After seven months, in spite of the social ministries resistances the Office of the Chief of Staff Ministry and the Presidential Advisory Unit have successfully managed to persuade the sectors involved that the unification must be implemented because it is the best possible solution for deprived populations. The incubator role played by the Office of Chief of Staff and the Advisory Unit will not focus on other issues given the success of the first job they took charge of.

## 5.2 Tackling regulatory policy: the unfinished (and problematic) business of the Cardoso era

One of the main challenges the new government faced as soon as it came to office was related to the regulatory agencies. The creation of regulatory agencies, first in the infrastructure sector and then in other areas such as health was an important policy innovation of Cardoso's governments. The impetus of the first wave was strongly influenced by the privatization process. The creation of regulatory agencies was the logical consequence of the governmental decision of transferring to the private sector most of its utilities companies during Cardoso's first mandate. The regulatory agencies of the health sector followed another logic.

Many political and economic actors were suspicious with respect to PT's position related to the regulatory agencies, given the party's historical record against privatization. There were fears caused by the risk of reversion of the model. The regulatory agencies were not consolidated yet and there were several institutional problems that had not been properly addressed in the previous years. Moreover, the

regulatory policy was located in a kind of institutional vacuum without a clear jurisdiction bearing upon it.

The main common problems of the regulatory agencies were caused by the lack of a public management policy specifically oriented towards sustainable regulatory institutional arrangements. The default model was contaminated by the decisional factors motivated by privatization concerns. Attention was allocated to the success of the privatization bids, not to the institutional building process of regulatory agencies. Therefore, issues like personnel, funding, relationships with ministries, performance agreements and others were dealt on provisional basis when the agencies were created. The government faced credibility problems at that time given the macroeconomic problems. The decisions taken with respect to public management were not supposed to embarrass private sector expectations, even if at expense of the quality of the regulation framework.

Meanwhile, the establishment of regulatory agencies were equated with the privatization process, as a first generation type of reform. First generation type of reforms are politically demanding but the decisional process require few actors in order to implement them. Second generation type of reforms are managerially demanding and involve complex and multidimensional elements. The creation of a proper regulatory environment was subordinated to privatization concerns and both processes were implemented simultaneously. The issue here is not policy sequence but the need of treating both processes differently.

A policy learning process was installed at that time – the second half of Cardoso’s first mandate – but it was not followed by significant developments during the second period in office. Until a certain point the shortcomings of the transitional period – such as the shortage of personnel, the lack of experience in dealing with a competitive environment, the absence of critical mass in regulation and others – were understandable because of the sensitivity of the process given the macroeconomic context. The government was deeply committed in providing continuous evidences to international investors and supranational institutions that the Brazilian economy was changing.

During the first months of Lula’s new government there were contradictory expectations with respect to the new positioning of Lula’s government in relation to the regulatory agencies. Common, every day, issues like concession contracts, prices, board of directors and the like became object of media attention and interest groups conflicts. There were fears related to the possibility of a reverse to the state activism (although re-nationalization was not in the cards). The new ministers – especially in the infra-structure sector - were not ready to deal with the unfinished business of the previous government and ministries did not have instruments to cope with situation. But the government showed immediate responsive capacity. The Office of the Chief of Staff Ministry produced an internal document expressing the government interest in consolidating and improving the regulatory arrangements.

The document was a preliminary diagnosis of the situation but it made clear that the government did not intend to reverse to the regulatory regime which existed prior to 1995. The Chief of Staff made it clear the government commitment to the improvement of the regulatory institutional arrangements but without the lenience that marked the latter years. Ad hoc decisions were recognized was inevitable in the short run. But long term sustainable solutions were identified as essential to make regulation work in the public interest.

It is still too soon to say to what extent the government will be successful in tackling the issue. But there is an official position with respect to the problem, a diagnosis and a convergence of interests - within the ministries, regulatory agencies and private companies operating in the regulated sectors -



with respect to the pervasive need of stability of the rules.

### 5.3 Control and auditing: lottery mechanisms as an incentive tool.

An important policy novelty was introduced in the control sector thanks to the adoption of lottery mechanisms to steer auditing actions. The Executive Comptroller is responsible for auditing how public monies are spent in different areas of government and in the different spheres of government. Most federal programs are implemented through shared competency mechanisms in which local municipalities hold responsibilities for front-line actions. The Executive Controller is expected to audit about five thousand and five hundred municipalities on a continuous basis. It is technically and economically impossible to monitor how local governments spend federal money. Therefore the government decided to use lottery mechanisms to choose the block of municipalities in which the executive will delve into to look for corruption and inefficient practices.

That is the most significant novelty in the field since the event of centralization of controlling functions in the Presidential Office. Cardoso introduced important changes in the way internal control activities were performed. First the inspectors were concentrated in the Secretariat of Internal Control of the Ministry of Finance – they worked on a decentralized basis before. Second the Secretariat was transferred to the Presidential Office and merged with other general oversight functions, like the ombudsman. Finally it was made to operate under strict anti-corruption guidelines given the necessity of the Cardoso government to show responsiveness in a delicate moment when the government was accused of being tolerant with certain suspect practices.

The policy changes were not perceived as an improvement. Auditing and control activities were proactive and centered around efficiency as well as corruption dimensions before the changes. They were transformed in reactive and the anti-corruption vector became dominant at expense of the economic concerns. The changes were taken as a step in the wrong direction despite the transference of the auditing and control functions to the Presidency – in principle a move that signaled an improvement of its previous status – as suggested by a TCU's report.

In the new government the Office of the Comptroller already launched two waves of audits in six months. Each set of operations included thirty municipalities. The rationale of adopting lottery mechanisms is not based only on pragmatic resources management. In doing so the government keeps all municipalities on their toes. All local governments are bound to be chosen because of stochastic probabilities. The national and regional media immediately directs their lights to the chosen municipalities. Hence, all local mayors have to keep at the ready in order to deal with the eventual possibility of being forced to prove their honesty and zealously they manage federal money.

Again, it is too early to say how these changes bear upon the management of federal money by local authorities. However, there are no doubts that the Comptroller's innovation introduced a new variable on mayor's political calculus. They became potentially exposed to federal control and media scrutiny. They have now an additional incentive to be cautious when dealing with federal programs. Meanwhile, the federal government expects to achieve more compliance thanks to the combination of lottery mechanisms and targeted auditing.

The Comptroller's initiative was particularly welcome because of the retrocess happening at the end of Cardoso's government when auditing operations already deployed suffered a deep strategic change by the hasty decision of subordinating executive control to an anti-corruption perspective. The lottery mechanism was the first sign of the resumption of the pro-active posture by the Comptroller which is

reminiscent of the years that anteceded its transference to the Presidential Office. It is not enough to resume the tendency towards a more results oriented approach that was en route before. But it reveals openness and disposition to experiment in an area traditionally marked by organizational conservatism.

#### 5.4 When long term planning goes public

One of the most controversial decisions of the government with respect to the planning and budgeting process was to open a public debate about the pluriannual plan (PPA). The government decision of promoting twenty-seven public hearings about the new PPA was perceived as risky and unnecessary because of three reasons. First, the first year of a new government is usually recognized as an accommodation period. The new ministers and the president need time to get used with the federal executive machine, especially in the case of the Worker's Party that had never held this office before. Second, there is a lot of inertia in the planning and budgeting processes which makes the introduction of changes hard given the limited room to manoeuvre in introducing new expenditures or re-allocating resources from one sector to the other. Third, the government has been deeply committed with fiscal prudence. This means that the raise in the primary surplus figures agreed with the IMF imposes severe constraints in the management of the public expenditure. In spite of all three factors the government decided to go public and take the debate about the PPA 2004-2007 to all interest groups affected in the process.

The General Secretary of the Presidency and the Ministry of Planning, Budgeting and Management carried the initiative out. Yet another novelty was introduced: the debates were organized in a partnership with the support – political and logistic - of national NGOs associations. Thus, the MPOG proposal was discussed in twenty-seven events with the participation of all governors and the civil society organizations of all states for the first time in the country's history.

In order to increase the cabinet cohesiveness the government decided that all ministries should participate. But such participation should not be restricted to their particular electoral basis or to issues specific to their portfolios. A rotation mechanism was introduced in order to make all them answer questions related to PPA in different capitals of country. In doing so, all ministries acquired a global vision of the proposal. The process of equalizing information worked as training sessions for all the government while the proposals were intensively discussed by social movements, business entities, NGOs, regional and local authorities, and politicians

Some immediate results became evident after the initial audiences. First, the information deficit was so high that the public response was much more positive than anticipated. Second, the disclosure of the federal executive's priorities revealed interfaces with state and local governments and allowed them to get involved in the programming exercise of defining the federal executive priorities. Third, the public debate allowed the government to refine the proposals thanks to civil society participation. Fourth, the public hearings worked as a political validation mechanism of the planning and budgeting processes. Fifth, thanks to the high levels of participation the government will be held accountable for all the commitments in the PPA.

There is no how to make a conclusive balance about the implications of the public hearings for the planning and budgeting processes. The PPA elaboration occurs at each four years. Many things will depend on how the government – especially the MPOG and the General Secretary – will deal with the ordinary budgeting process, still influenced by the last years patterns of resources allocations.

## 6 Speculating about possible developments

A positive scenario brings out five significant policy changes in contrast with the previous government. In order to produce an effective contrast the government needs to produce unquestionable improvements in five dimensions: personnel, organizational design, cost-effectiveness, transparency, and coordination. The key point with respect to the personnel agenda is the installation of merit-based system in the federal civil service combined with institutionalized bargains with public sector employees' unions. Some initial steps were taken over the last years thanks to the resumption of public selections for some careers of the strategic core of the federal executive. But the process was not sustained. The other segments of the workforce were neglected and the current government has a commitment to them given their political alignment with Lula's platform. The establishment of institutional channels to deal with public sector employees demands is essential to restore trust and respect in the public sector industrial relations, especially at a moment of civil servants' losses because of the expected social security reforms.

The public sector institutional features are messy and confused. The current institutional forms include ministries, autarchies (including special autarchies, executive agencies, and regulatory agencies) public and private foundations, social organizations, social organizations oriented towards the public interest, state owned companies and others. The legal architecture involving the public, private and public but not state owned sectors is blurred. There is a myriad of organizational forms grouped in layers of decades of administrative reforms. Different generations of institutions live together in legal cacophony outside the legal the legal establishment with whom the executive has kept contradictory relationships since the 1988 Constitution. Ambiguous and provisional arrangements have been the dominant characteristic of the federal public administration. If the new government clears the legal and organizational mess of the executive a new era will begin for the public sector.

Efficiency is not a popular concern in left-wing governments, in spite of counter intuitive national experiences that occurred over the last decades in countries like Spain, Netherlands, France, Italy, and, more recently, Britain. Fiscal concerns are not a monopoly of rightwing rhetoric as left-wing governments have demonstrated, thanks to their genuine commitment with solid economic fundamentals. Lula's economic team has clearly calmed down the markets these months thanks to the prudent macroeconomic policy adopted by the Finance Minister. However if efficiency concerns do not become embedded in micro economic policies through the engagement of other areas of government (notably planning, budgeting and management) the polarization between cost-cutting perspectives and tax-and-boost visions becomes inevitable. The missing link between macro and micro economic policies as well as between first and second generation of reforms is located at the intersection of planning, budgeting and management. The chances of failure in this area will increase if efficiency concerns are not internalized, first by the correspondent sectoral Ministry and secondly by the whole government.

The Budgeting and Treasury Secretariats take the burden of dealing, almost exclusively, with cost-appropriateness in the government almost exclusively. Intergovernmental solidarity with respect to efficiency and optimization is hard to find and the cohesiveness of the executive with respect to such issues depends strongly on Presidential leadership. If President Lula succeeds in persuading his cabinet as to the importance of getting the best possible value for the money that the government spends, the commitment with responsible expenditure will be an important political novelty of his mandate. In doing so the president will have taken the leading part with respect to the budgetary process, a role traditionally delegated to the ministers of Planning, Budgeting and Management, and Finance. Making the government cost conscious is part of the challenge. Making the ministries, high officials and public

bureaucracy accountable for the quality of the outcomes is a further step that goes beyond the rhetoric of contractualization of results. It subordinates policy outcomes to political command in a straightforward and unprecedented way.

Transparency and participation have been historical demands of the Workers' Party for as long as it has existed. Thanks to the party anti-corruption bias and accountability records there is a strong commitment with clean decision making practices and negotiated processes. These sympathies were demonstrated in two main initiatives: the creation of the Social Economic Development Strategic Council (CDES), as a Ministry without Portfolio, and the decision to make public hearings on the PPA at the state level. The CDES is supposed to work as *concertación* mechanism in which the national priorities are discussed and the informational level about the problems is improved thanks to the participation of interest groups and specialists. If the government uses intensively the council the discussions of critical issues of the governmental agenda will benefit extraordinarily from its contributions.

The public hearings at state level suggest three different possible developments. First, it can be used as an extra mechanism destined to capture interest group demands at state level in order to enrich the way the budgetary process is initiated – basically as an in-doors job. Second, it can be used as a validation and information mechanism of the planning and budgeting process, which was basically the role it played this year. Third, it can support the establishment of different social mechanisms given the publicity of the events. The three alternatives are not mutually exclusive but each generates different implications for the planning and budgeting processes.

The fifth source of positive developments is coordination. If the practice of coordination through the Chief of Staff Ministry - backed by the President - succeeds the government will have created a new way of dealing with the impossible task of producing government teamwork. However, it is not clear if there is an incubation formula. The visible signs suggest that the empowerment of the President Advisory Unit and the Office of the Chief of Staff are requirements for the co-ordination function. President Lula is personally committed with the success of the unification of the income cash conditioned transfers. There are other areas of the government waiting for a similar approach to their challenges like regulation, information technology, and land reform. Success in the social policy domain will enable the government to tackle the other areas with conflictive mandates and jurisdictions.

A negative scenario includes risks of combined (or not?) retreats in the same five areas: personnel, organizational design, efficiency, accountability, and coordination. Personnel is probably the most sensitive area because of a combination of Brazil's historical record on patronage and the importance of civil servants as an interest group for the Workers Party. Damage to the merit system can take many forms: multiplication of freely appointed positions, problematic wage policy<sup>3</sup>, lenience with corporativisms, inability in dealing with professional and independent civil servants, loose management of the pay-roll, political capture of the state machine, and so on. After half a year it is premature to say that the government is falling into these kinds of traps but the potential risks for it are very much there. The threats are even bigger in the event of an indeterminate human resources policy because that sort of problem usually sprouts up in a shady environment.

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<sup>3</sup> Examples of problematic wage policies include complicity with distortions at the bottom and at the top of the pyramid, irresponsible pay rises, disregard with respect to the structure of incentives, negligence in pursuing performance management initiatives, paternalism, lack of competitiveness etc.

Organizational design is an experimental area in current reformist initiatives. The Workers' Party owns much of its political strength to social movements and NGOs which have historically supported its equity and fairness ideals. Recent developments – notably the legislation that created Social Organizations and Social Organizations of Public Interest - in the third sector area occurred thanks to the efforts of entrepreneurs and interest groups. Nevertheless the legal establishment still despises most of the policy innovations in this field. They consider the concept of public but non-state ownership suspicious at the same time that they feel at ease with clear public and private distinctions. If the party's bureaucratic bias contaminates top officials there is a risk of an increasing preference for state activism.

The government has adopted prudent fiscal and monetary policies since the beginning. It has demonstrated a commitment with economic fundamentals beyond any possible doubt in order to calm down markets, investors and the international community. However the multiplication of ministries and the upcoming municipal elections put political pressure on the government to spend more and to loosen macro-economic restrictions in order to cater for new and old constituencies. If the public management policies do not contribute to improve public expenditure efficiency through continuous productivity gains, it is hard to see how the government will avoid a polarization between a traditionally perverse cost-cutting posture and an irresponsible expenditure policy.

The Workers' Party places accountability in the core of its principles. Transparency is a sacred value within the party decision-making mechanisms – even at expense of popular support – and in government. The Workers' Party way of governing has always emphasized participation and consultation as key governance mechanisms. However there is not enough clarity of potential side and reverse effects that can derive from over-participation. Individual testimonies and anecdotic stories suggest that beyond a certain (but not clearly identifiable) point the costs and effectiveness of participation become controversial given bureaucratization tendencies. There is also an argument that suggests that participation mechanisms are not the suitable way for dealing with certain type of complex problems strongly dependent of expertise inputs. The risks of costly procedures, decisional paralysis, vague solutions, and delayed measures are well known by the party managers'; now government decision-makers. But it is not clear how they evaluate the potential of the same problems within governmental practices.

Lack of coordination is one of the main explanations for the disappointing results of Cardoso reforms when they are taken as a whole. There were not effective interfaces between many reformist efforts, even if simultaneous (or even when they occurred within the same ministry). Lula opted for a big cabinet and for a powerful Presidency. The public management policy domain is fragmented and there are not clear instances of policy coordination in spite of the Chief of Staff's attempts to monitor the government performance as well as to coordinate key initiatives – like defining the regulatory framework and coordinating income transference social programs. The government decided neither to create a state reform ministry – like Sarney, Collor, and Cardoso in his first mandate - nor to concentrate on the Ministry of Planning, Budgeting and Management the responsibilities for coordinating public management policies (though some of them are indeed there) – like Sarney after the National Constituency Assembly, and Cardoso in his second term. The function's split between the Office of the Chief of Staff and the Ministry of Planning, Budgeting and Management can produce synergy if they converge. But it can also generate confusion and ineffectiveness if they do not cooperate.

At least for a while all five risks have been addressed by the government's infant initiatives. Public exams for the core state careers have been resumed. The National School of Public Administration has

developed targeted initiatives to enable high officials capacities. There are not evidences of anti-NGOs bias in the new government policies, quite to the contrary. The Ministry of Planning, Budgeting and Management launched an important optimization program. The government is aware of the risks involved in resorting to participation mechanisms that lead to the frustration of expectations. There is a shared agreement between the Chief of Staff and the Minister of Planning, Budgeting and Management about how to distribute responsibilities. But only time will show to what extent these initiatives are sustainable.

#### 7 Conclusion: a very preliminary balance

The beginning of the government has been marked by experimentation and difficulties of clarifying priorities in the public management domain. The effectiveness of the on going policy initiatives will depend on the Executive's ability of building implementation capacities to promote policy change. There are motives for apprehensions with respect to the ongoing work at the Ministry of Planning, Budget and Management. But pressure will probably come from front line ministers, desperate to deliver but blocked by dysfunctional structures, lack of qualified personnel, overwhelmed with red tape concerns and open to new ideas.

Sooner or later the President will vent his impatience with the low speed of governmental results. The shortcomings of an institutional arrangement marked by fragmentation are evident. But the new government needs time to operate the executive machine according to its political priorities. Moreover, the inner circle closer to the President needs to know the limits and potentialities of the executive in order to expand the limits of the possibilities of the government. Knowledge of the limitations implies in comprehension of the bottlenecks that block systemic public policies such as public management. The nucleon of the government is aware about the importance of a good diagnosis – as SEGES/MPOG guidelines suggest. That notwithstanding the MPOG will need the support of the Presidential Office in order to implement across the board public management policies policy changes. But the executive, as a whole, needs to demonstrate cohesiveness and persistence in tackling simultaneously multiple fronts.

The Workers' Party accumulation of expertise at state and local level was not clearly incorporated in the traditional public management policies. However another policy learning process began in January 2003. It is not clear however where it will take the government. The cognitive and political capacity to learn of the President is legendary. But government capacities are altogether a different matter. They have to be built and expanded continuously at the same time that policy and political results are pursued.

Finally, Lula's government is facing the pluralist challenge expressed by Figure 1 and mentioned in SEGES/MPOG document. It is always a sympathetic perspective but policy pluralism presents problems, too. It is ever-unbalancing dynamics and each quadrant contains elements that compete with those ideas present in others. One hypothetic route suggests the introduction of a programmed sequential emphasis over time in order to deal with distinct group of problems one at a time.

How to establish a "game plan" is a political question. Fiscal constrains – probably the most natural starting point - will not disappear any time soon. But sooner or later some room for manoeuvre is bound to be produced. One logical alternative could be strength the progressive public administration agenda. Yet, another route could be bringing the managerial efforts closer to the government core, especially if the government is willing to heed the experience of leftwing governments in Spain, France, Sweden, United Kingdom and others. But corporatist pressures are directly related with an interest group that historically supported the government. Civil servants and public sector employees

are a traditional constituency of the Workers' Party.

Public management policies are rarely clearly stated at the beginning of a new government, even when they are mentioned in official documents. They usually emerge after the occurrence of conflicts, choices between trade-offs, and trial and error. The Workers' Party is keen on experimentation and there are no reasons to presume that public management will be exception. The government has enough political resources, technical expertise, and, especially, time to pursue any coherent strategy consistent with its priorities. The major risks are treating public management as a non-question, procrastination, and policy learning difficulties. The path to be taken depends on how multiple interests will interact. The government is clarifying its position. The challenges are enormous. But if those who govern the public management agenda succeed in linking their proposals to the President's priorities – like tackling inequality and combating poverty – the outlook is promising.

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