
Final Report on the IIAS Berlin Conference 2005

*Theme: Public Administration and Private Enterprise:
Co-operation, Competition and Regulation*

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For three days the participants of this IIAS Berlin Conference discussed the relations between the state organization, civil society organizations, and private enterprises. Most of the discussions were held under the general title of PPP – public private partnership – but it is important to emphasize that this expression was used during the conference in a broad sense. On the other hand, the attitude of the participants in relation to such partnerships was mixed. While some participants – mostly young people – suggested that partnerships are the future, I would say that most expressed resistance to the view that partnerships are a kind of general solution to all problems. On the contrary, it was stressed that decisions should follow on a case by case method.

Papers were distributed among four workshops according to the corresponding sub-topics: I – Co-operation and Partnership; II – Regulation; III – Public Services; IV – National Governments in a Globalized Economy. I participated in the four workshops as actively as I could. The presentations were competent and stimulating, offering questions rather than ready-made solutions – questions that stirred thinking. At the end, I also did not have an answer to all questions, but could elucidate two basic questions: (1) Who are the partners? (2) How can we increase state capacity through partnerships?

(1) Who are the partners?

From the beginning of the conference three things became clear:

First, in the provision of public services, partnership today is not just a two fold public-private relation, but a three fold relation: state, third sector, and business enterprises.

Second, although public administration remains responsible for services, its provision does not follow a classical, hierarchical pattern but it is rather characterized by networks among the public, private, and associative or public non-state sectors. When we speak of governance we mean governance networks. There is a change from the focus on free-standing organizations to organizations operating in networks or clusters. In such cases, an important concern is the degree of embedment of each organization, e.g., the dependence relationship of each organization within various types of networks, notably because we can think in 'mixed networks' involving cooperation of government, firms, and third sector. In each network we are able to visualize links between the actors that extend the embedment of the network. There are conflicts but the outcome of balancing and mixing is eventually an increase in competency. Organizational and individual actors share projects, common mental representations and preferences, etc., which allow for collective anticipation of needs, training in the work situation, coordination of know-how teams, and the collective resolution of problems.

Third, in the associative sector it is important to distinguish the non-profit service organizations from the social accountability or political advocacy organizations. While the former have an increasing role in the supply of social and scientific services – such as hospitals, museums, universities, research centers, the latter play an increasing role in making public services more accountable to society, in making democracy more participatory.

(2) How can we increase state capacity through partnerships?

The central concern of the conference was with partnership, and the underlining question was: Do public-private-associative partnerships imply the withdrawal of the State or not? And the general answer that I was able to detect is that partnerships only make sense if they are part of a general process of labor division through which public administration can outsource services to public non-state or non-profit organizations with the aim of reducing costs for taxpayers. In other words, partnerships are a technical question concerned with how to provide public services more efficiently. When this is not the case, but the aim is to reduce the role and size of the state, we are in the field of politics and - in democracy - the decision will be taken by voters.

The two political decisions that each society is supposed to make in these matters are: What are the social and scientific services that the state is supposed to provide freely, or almost freely? What are the monopolistic or quasi-monopolistic public services (utilities) that the state is supposed to provide directly or through state-owned enterprises?

Once a decision is taken, for instance, that health care should be offered universally by the state, the technical decision is to know if it should be provided directly or through partnerships. The general tendency today is to opt for the second alternative, although each case will be a different case. If the service is contracted out, it will be contracted with non-profit organizations, which will be closely kept under control by management contracts, competition for excellence among organizations offering the same kind of service, and through social accountability mechanisms.

In public services, a distinction will have to be made between services that are financially self-sustaining, and services that will require a continuing subsidy of the state. In both cases if the service is privatized or part of a PPP project, it is important to know whether the service is a competitive one or monopolistic, and, if monopolistic, how easy or difficult it will be to set reasonable prices.

In the case of services that are not self-financed, we have a situation in which *stricto sensu* PPP applies: a business enterprise will share with the state the cost of the investment, and the contract will involve continuing payments by the state to complement the firm's revenues. PPPs, understood essentially in this way, have been effective for building and maintaining highways, which - although monopolistic - may include having reasonable prices set administratively. In other cases, *stricto sensu* PPPs must be viewed with caution. To use them to avoid incurring a public deficit was not viewed as a legitimate practice.

In the case of public services that are self-sustaining but monopolistic, the probability that they would imply cost reduction or efficiency gains was viewed as disputable. In several circumstances prices increased instead of decreasing after privatization. The prediction that regulatory agencies will be able to set the correct prices is highly dubious. In the case of non-monopolistic markets, however, such as the cell-telephone system, privatization and regulatory agencies are a good alternative.

In the table below we summarize these four cases.

	Contract	Probability of cost reduction	Example
Not self-financed social, or scientific service	Management contract	Positive	Health care, universities, museums
Partially self-financed public service	PPP	Case by case	Highways construction and operation
Monopolistic fully self-financed public service	Concession/ Privatization	Negative	Water Supply
Competitive fully self-financed public service	Concession/ Privatization	Positive	Cell-telephone system

Today, there are strong pressures on privatization and PPPs – pressures that respond to ideology and to interests. Local governments as well as developing countries are often forced to adopt such solutions. World Bank and IMF offer developing countries the possibility of investments without additional public deficit (public sector borrowing requirements) provided that the public service is privatized, or, if it is not self-sustaining, subject to a PPP.

The privatization of public services is directly tied to the creation of regulatory agencies. Conservative economists were critical of regulation of poorly competitive markets such as drugs or transportation, arguing that the risks of capture could outnumber the costs of private firms' collusion. Yet, when the opportunity for privatization appeared in the 1980s, regulatory agencies were viewed as the perfect solution provided that they were independent. During the conference, in the discussion of regulatory agencies, independence was always stressed but a distinction was made between administrative and substantive independence. There was no disagreement on the need for administrative independence. Also, the use of management contracts was not viewed as an impediment. Yet, in relation to substantive independence, it was stressed that it should be limited to price and quality setting, not concerned with policymaking which should be a prerogative of parliament or the executive branch. In setting prices, regulatory agencies should be made accountable to society through parliamentary review and through social accountability mechanisms.

The German Panel

The conference included a German Panel that began with severe criticism of the German state, thought to be too bureaucratic. The representative of the state responded by drawing attention to the actions that were being undertaken to de-regulate and de-bureaucratize the state. Yet, what became evident in the debate was the need for a more general approach to state reform in Germany. Germans are committed to their social system, which is central to them. Thus, the question is how they will reform the state; how they will make it more efficient, less bureaucratic, without losing social solidarity. To copy the American social system is not an alternative. Yet, we can see a response to that question in the model of public management reform, particularly in the form adopted by social-democratic governments, such as Great Britain during the last labor administration, New Zealand again during the present labor administration, Sweden, and even Brazil under the Cardoso administration. Yet, such an encompassing model of state reform will only be viable if it

involves a major agreement between senior bureaucrats and businessmen on the need of an efficient state.

Global Governance

Governance was discussed in several panels and was the subject of a special panel on global governance sponsored by the United Nations. Yet, it was clear from the panelists that there is a major difference between national and local governance, which is an increasing reality, and global governance, which remains more or less an ideology.

Globalization is characterized by economic competition among nations. However, it is often said that globalization involves the demise of the state. The nation-state would become so interdependent and unable to formulate policies alone, that it would become irrelevant. This view is considered highly exaggerated. On the contrary, globalization requires stronger, more capable states that are able to support their respective enterprises in global competition. The agreement between nation-states represented by the European Union is not a signal that the nation-state is disappearing, but an indication that Europeans have decided to get more united to counteract the effects of globalization.

It is possible to speak of global governance if we think in terms of the system that mankind is building around the United Nations. At national level, governance is a process of sharing power with civil society: thus, it is a form of participatory democracy; it is a way towards deliberative democracy. At global level, we cannot speak of participatory democracy. But we can speak of a system to avoid war and create cooperation among nations which is present in the agreements established through the United Nations.

IIAS 75th Anniversary Panel

The Conference ended with a panel in which several speakers elaborated the contribution that the Institute has historically given to public administration at world level. A center for debates, for scientific enquiry, for publication of books and of a high-level academic journal, for documentation – I believe that with this 2005 Berlin Conference the IIAS gave a demonstration of its continuing vitality.

Luiz Carlos Bresser-Pereira is professor of economics at Getúlio Vargas Foundation (São Paulo) since 1959. He was visiting professor, giving regular graduate courses of development economics, at the University of Paris I (1978) and of political theory of modern democracy at USP's Department of Political Science. He was also visiting fellow at the École d'Hautes Études en Sciences Sociales, Oxford University, and at USP's Institute of Advanced Studies. While keeping his academic activities, from 1963 to 1982 he was vice-president at the Grupo Pão de Açúcar. In 1983, with the election of the first democratic governor to São Paulo – Franco Montoro – he became president of the state bank of São Paulo, and two years later, chief of staff of the governor. In April 1987, in the aftermath of the Cruzado Plan crisis, he accepted being Finance Minister of Brazil. The economy returned to order, but having no conditions of implementing the required fiscal adjustment, he left the ministry at the end of that year. Since July 1999 he is fully dedicated to the academic life.